Setting the standard in equity release

EQUITY RELEASE COUNCIL
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Equity Release Market Report

Autumn 2017

www.equityreleasecouncil.com

Contents

Foreword

The Autumn edition of the 2017 Equity Release Market Report comes at a time when the challenge of ensuring consumers are equipped with adequate financial provision in later life has never been more at the centre of public debate. The UK's older population continues to grow and the reality of a shift from defined benefit (DB) to defined contribution (DC) pensions will likely result in future retirees facing a greater shortfall in later life than previous generations unless a blend of savings, wealth and assets are used to fund retirement.

It is clear that unlocking housing wealth has an increasingly important role to play in helping older people pay for later life. Analysis from the Equity Release Council earlier this year estimated that total homeowner equity in England has reached an unprecedented £2.6 trillion, with £1.8 trillion belonging to over-55 households. Customer data suggests that those using equity release have homes worth around 25% more than was the case just three years ago.

In what is the most comprehensive analysis of activity to date, this latest Market Report highlights the growing range of options available as over-55s seek to unlock that housing wealth. The sector continues to respond to increased demand from consumers with greater choice and flexibility. Importantly, this innovation has gone hand in hand with a continued commitment to the product Standards and a robust framework of financial and legal advice that have been major factors behind the market's growth, due to the confidence they instil among consumers.

Looking ahead, the second half of 2017 will bring the publication of the Financial Conduct Authority's (FCA) Ageing Population Project, continued work to implement the Financial Advice Market Review and further examination of the retirement income market. Our sector has an important role to play in each of these initiatives, and we will continue to work with government – particularly on plans for a new single public body for financial guidance.

Along with new partnerships that build bridges within the financial services landscape to benefit consumers, this offers an important chance to signpost the many potential uses of housing wealth – from helping to pay for older generations' retirement – to supporting younger generations by providing a 'living inheritance' in passing on wealth while a person is still alive. With 25 years of work behind us to establish a safe, reliable and increasingly mainstream market for consumers, we look forward to redoubling these efforts to help the UK meet the broad financial challenges that lie ahead.

Nigel Waterson, Chairman of the Equity Release Council

Product Trends

Greater choice at lower cost as competition grows

Increased consumer demand for equity release has gone hand in hand with significant growth in the number of product options available over the last decade. This has given consumers unprecedented choice and flexibility with an increasing range of product features tailored to meet varying needs.

Recent innovation means that as of August 2017, there were 78 different product options available from members of The Council, an increase of 20 in the last year alone. This also represents a significant step change when compared to the 24 product options that existed a decade ago.

Growth in equity release product plans

PERIOD	NUMBER OF PLANS AVAILABLE	CHANGE IN NUMBER OVER EACH PERIOD	% CHANGE OVER EACH PERIOD	CHANGE IN % SINCE 2007
AUGUST 2017	78	+20	+34%	+225%
AUGUST 2016	58	+31	+115%	+142%
AUGUST 2014	27	+10	+59%	+13%
AUGUST 2012	17	-7	-29%	-29%
AUGUST 2007	24	–	–	–

Source: product data supplied by Key Retirement

Over two-thirds of product options available in August 2017 allow customers to make ad hoc repayments free from early repayment charges (ERCs), while drawdown facilities and inheritance protection – the ability to ring-fence a guaranteed minimum amount of housing wealth to leave for families or loved ones – are features of around half of plans. So too are fixed/decreasing ERCs and downsizing protection.

Product features

NUMBER OF PRODUCT CHOICES WITH THIS FEATURE	PRODUCT FEATURES – AUTUMN 2017	% OF TOTAL PRODUCT CHOICES WITH THIS FEATURE
52	VOLUNTARY/ PARTIAL REPAYMENTS	68%
40	DRAWDOWN FACILITIES	52%
39	INHERITANCE GUARANTEE	51%
38	FIXED ERC	49%
35	DOWNSIZING PROTECTION	45%
32	SHELTERED/ AGE RESTRICTED ACCOMODATION	42%
8	INTEREST PAYMENTS	10%

Source: product data supplied by Key Retirement

Average equity release rates fell again between January and July 2017 as competition between providers continued to apply downward pressure. A fall of 15 basis points (bps) took the average rate down to 5.30%, from 5.45% in January.

On an annual basis, there has been a fall of 66 bps from 5.96% in July 2016, which compares favourably to other personal borrowing products. Only £5k personal loans have seen a larger fall in average interest rates over the same period, falling 123 basis points from 9.27% to 8.04%. In the eighteen months since January 2016, average equity release rates are down 90 bps from 6.20%.

Personal borrowing rates tracker

AVERAGE PRODUCT RATES (%)	JAN-16	JUL-16	JAN-17	JULY-17	6 MONTH CHANGE	ANNUAL CHANGE
PERSONAL LOANS (£5K)	9.11	9.27	9.45	8.04	-1.41	-1.23
EQUITY RELEASE	6.2	5.96	5.45	5.3	-0.15	-0.66
5 YEAR FIXED RATE MORTGAGE - 75% LTV	2.73	2.52	2.22	1.97	-0.25	-0.55
PERSONAL LOANS (£10K)	4.29	4.15	3.69	3.79	0.1	-0.36
2 YEAR VARIABLE RATE MORTGAGE - 75% LTV	1.68	1.72	1.49	1.39	-0.1	-0.33
2 YEAR FIXED RATE MORTGAGE - 75% LTV	1.9	1.72	1.44	1.41	-0.03	-0.31
3 YEAR FIXED RATE MORTGAGE - 75% LTV	2.18	2.08	1.75	1.8	0.05	-0.28
10 YEAR FIXED RATE MORTGAGE - 75% LTV	3.27	3.05	2.93	2.77	-0.16	-0.28
SVR MORTGAGES	4.56	4.52	4.23	4.51	0.28	-0.01
CREDIT CARDS	17.96	17.94	17.96	17.96	0	0.02
5 YEAR FIXED RATE MORTGAGE - 95% LTV	4.73	4.65	4.58	4.67	0.09	0.02
OVERDRAFTS	19.67	19.68	19.71	19.71	0	0.03
2 YEAR FIXED RATE MORTGAGE - 95% LTV	3.93	3.86	3.62	4.07	0.45	0.21
LIFETIME TRACKER MORTGAGES	2.57	2.57	2.3	n/a	n/a	n/a
2 YEAR VARIABLE RATE MORTGAGE - 90% LTV	2.67	2.61	2.46	n/a	n/a	n/a

Source: Moneyfacts/Bank of England. Rate changes measured in basis points (bps). Average equity release rates exclude products which do not offer the guaranteed right to tenure and no negative equity guarantee.

"...INCREASED CONSUMER DEMAND FOR EQUITY RELEASE HAS GONE HAND IN HAND WITH SIGNIFICANT GROWTH IN THE NUMBER OF PRODUCT OPTIONS AVAILABLE OVER THE LAST DECADE..."

Product features explained

- **Voluntary/partial repayments – allows ad hoc or regular repayments to be made, typically up to 10% of the initial loan per year, with no early repayment charge (ERC). Helps customers to minimise the build-up of interest and even reduce the loan over time.**

- **Drawdown facilities – allows customers to withdraw money in stages rather than taking a single amount all in one go. Interest is only applied when it is withdrawn – keeping costs down.**

- **Inheritance guarantee – reduces the maximum loan amount but enables a fixed percentage of the property value to be ring-fenced as a minimum inheritance, regardless of the total interest accrued by the loan.**

- **Fixed ERC – early repayment charges which are a fixed percentage of the initial loan during a set period of time. Typically, they decrease on a sliding scale. Once the fixed period has ended the customer can repay the loan in full without an ERC.**

- **Downsizing protection – allows customers to downsize to a smaller property and repay the loan – either voluntarily or if the new property does not fit providers' criteria – without incurring an ERC. Typically there is a qualifying period of five years before this feature applies.**

- **Sheltered/age restricted accommodation – some plans can be secured against sheltered or age restricted properties, subject to the provider's specific criteria at the time**

- **Interest payments – allows for either full or partial interest repayments to be made each month, which either stops or reduces the interest being rolled up on to the loan. There is no risk of repossession if payments are missed as customers can stop monthly interest payments and revert to interest roll-up at any time.**

Lifetime mortgage rates reflect the additional features and protections offered above and beyond typical homeowner mortgages. For products offered by members of The Council, this involves a guaranteed fixed or capped rate of interest for an indefinite term until the plan is repaid, typically when the customer passes away or moves into permanent care; the continuing right to tenure without regular repayments being required; and protection for the customer against negative equity with the provider absorbing this risk.

Market Activity

Over 30,000 homeowners unlock housing wealth during H1 2017

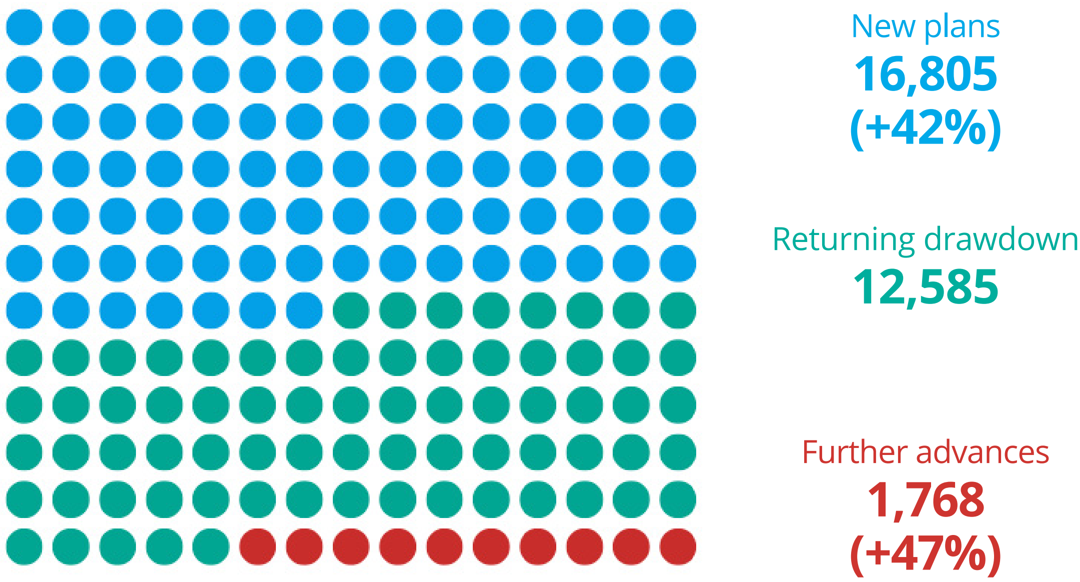
A busy start to the year for the equity release market saw a total of 31,158 homeowners over the age of 55 unlock housing wealth. Of these, 54% were customers taking out new plans with new customer numbers rising 42% year-on-year in H1 2017 to nearly 17,000. New customers accounted for around £1.22bn of lending activity, up 58% year-on-year.

This edition of the Market Report is the first that explores trends among the two main types of returning equity release customers: returning drawdown customers and customers who take out further advances. Returning drawdown customers are utilising a pre-agreed additional reserve facility that was arranged as part of their original plan to have access to withdraw housing wealth in stages, while customers taking out a further advance are releasing additional equity from their home on top of the sum agreed in their initial plan.

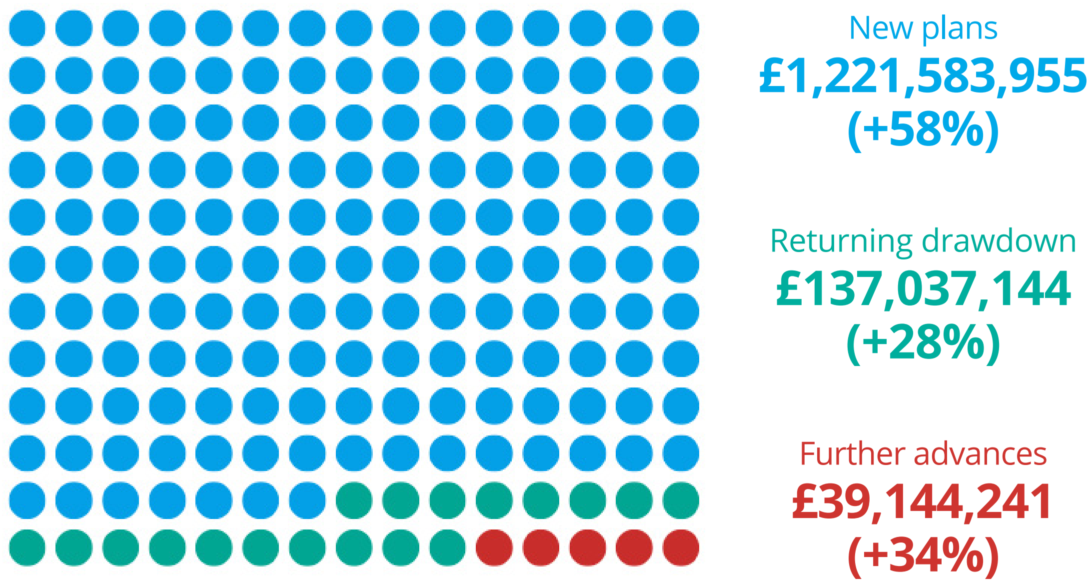
The first six months of 2017 also saw 12,585* customers with drawdown plans return to make use of the extra reserve facilities agreed at the outset of their plans. This allows them to dip into their housing wealth as and when they need it, and limits the interest they accrue by releasing money in stages. Lending to returning drawdown customers was up 28% year-on-year.

Finally, over 1,700 existing customers agreed further advances of housing wealth. Although customer numbers were up 47% year-on-year in this part of the market, the amount of lending via further advances increased by a more modest 34% as the extra sums unlocked were smaller on average than a year earlier.

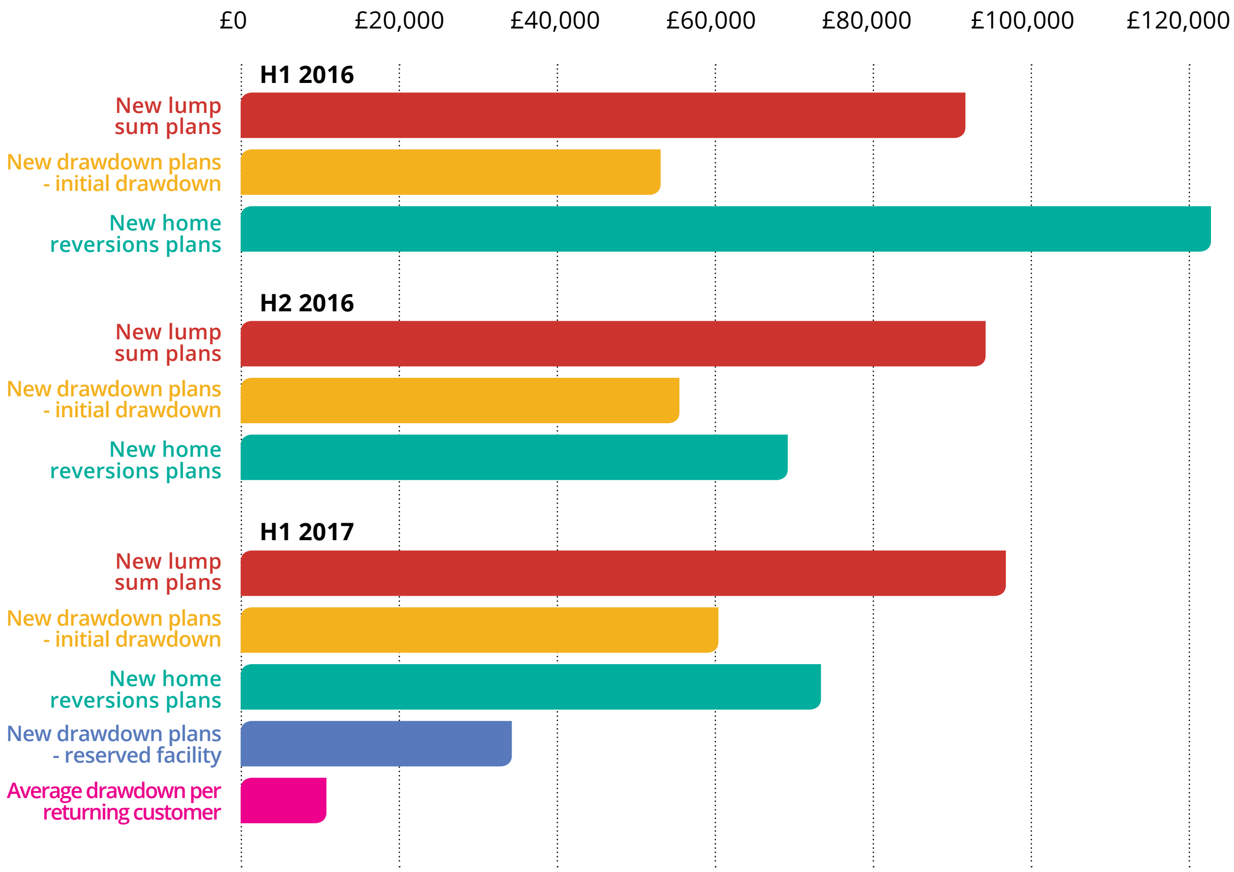
Total customer numbers - H1 2017**



Value of lending profile - H1 2017**



Average housing wealth withdrawals



** Some customers may return and drawdown on multiple occasions*

*** Figures in brackets show year-on-year changes.*

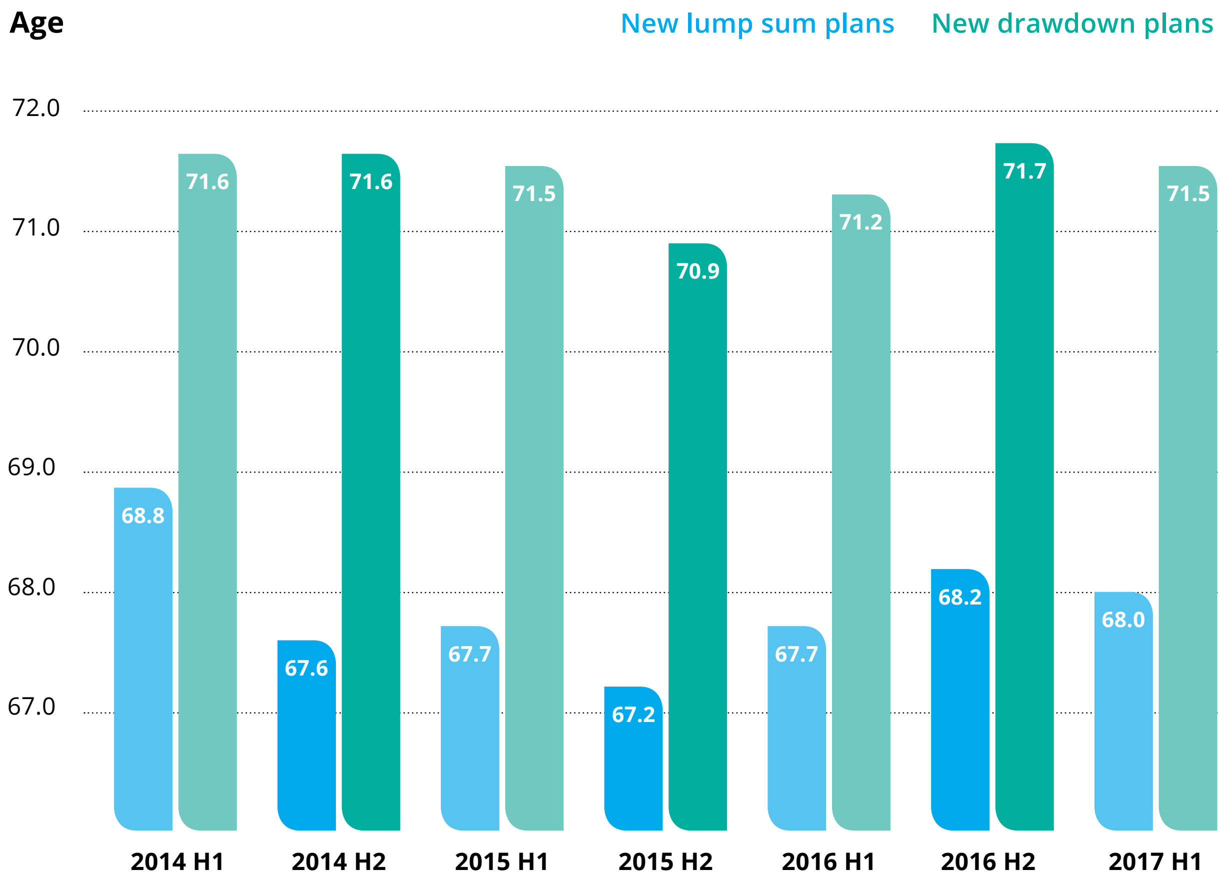
New Customers

Increased demand from 75-84 year olds as customers tap into higher-value homes

Demographic trends

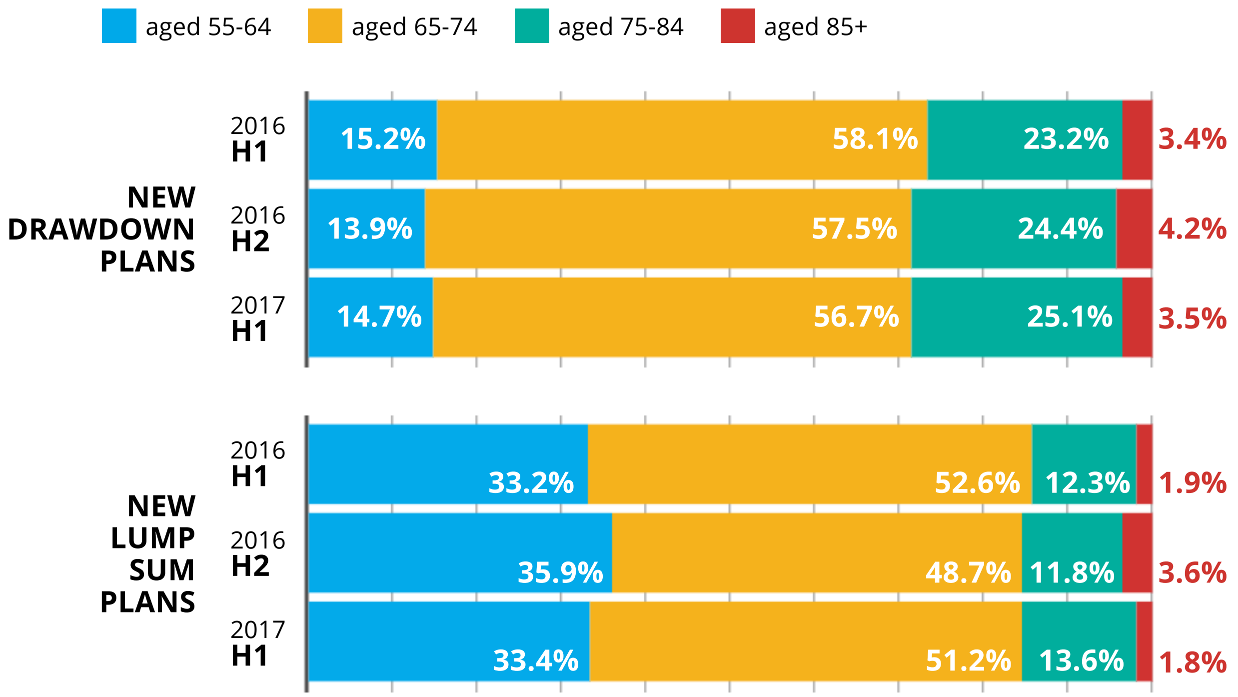
The average age of new equity release customers dropped marginally in the first half of 2017 across both drawdown and lump sum plans. However, both average ages have remained broadly unchanged from the first figures recorded in H1 2014.

Average age of new customers



The breakdown of customer ages indicates that an increasing number of homeowners aged 75-84 are unlocking the wealth in their homes and driving market growth. Between H1 2016 and H1 2017, there was notable growth in new drawdown plans being taken out by this age bracket, rising from 23.2% to 25.1%. This trend is also reflected among customers taking out new lump sum plans: those aged 75-84 made up 13.6% in H1 2017, compared with 12.3% in H1 2016

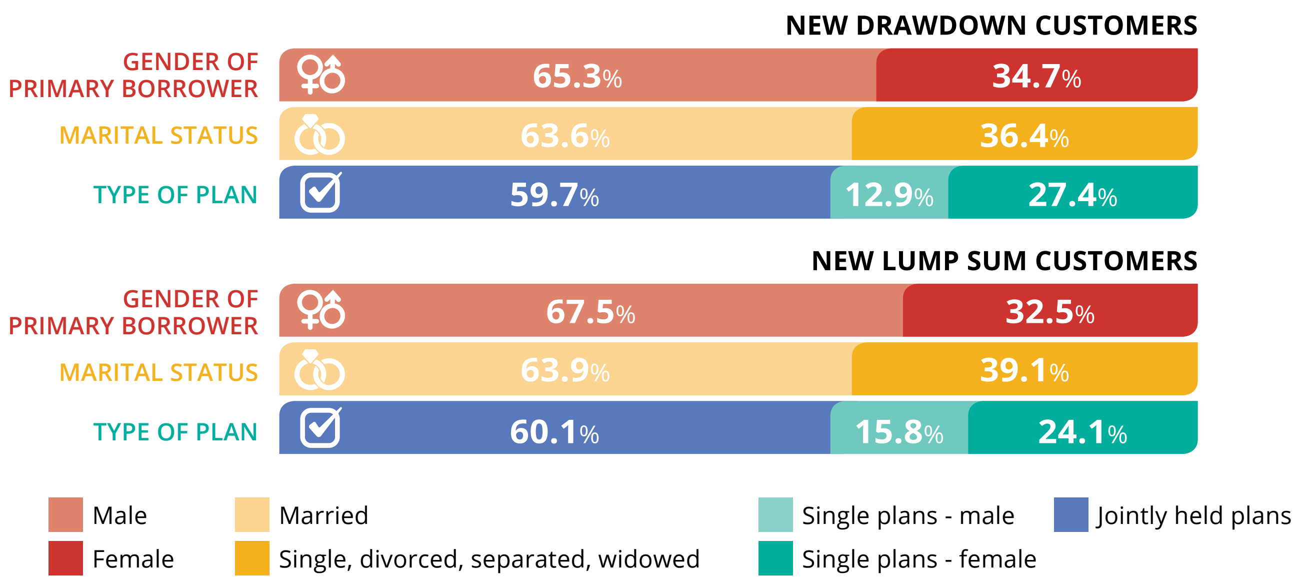
Age breakdown of new drawdown and lump sum plans



This edition of report also marks the first time The Council has compared gender and marital status of new customers between drawdown and lump sum products. The data is largely consistent across both product types, although new drawdown customers were slightly more likely to be female than lump sum customers.

Across both products, a significantly higher proportion of single plans were taken out by women than by men, with a greater difference visible for drawdown than lump sum plans. This potentially highlights a greater need for additional retirement income sources among women in later life, as women often retire with less in pension savings.

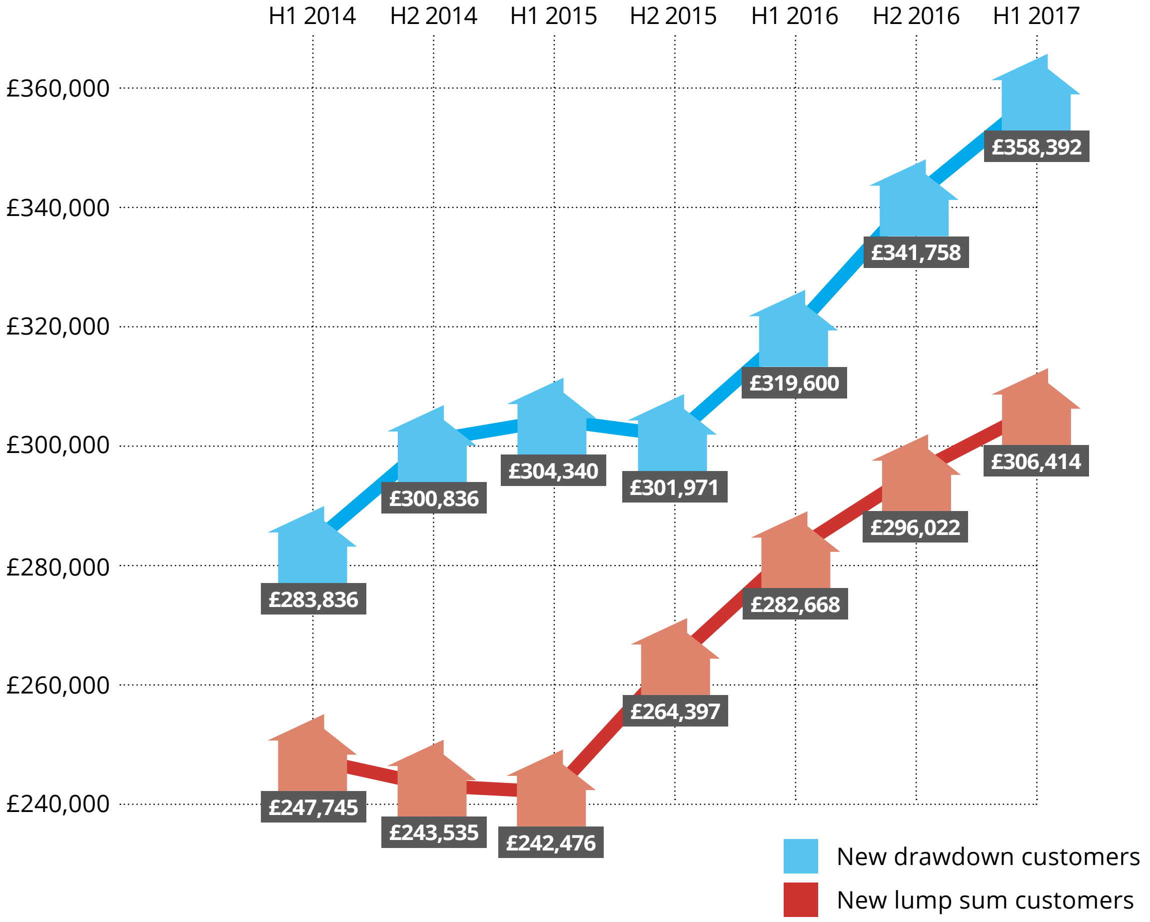
Gender and marital status of new customers – H1 2017



Housing wealth withdrawals

The average house price of new customers taking out equity release plans has steadily increased over the three years from H1 2014 to H1 2017, rising 26% among those taking drawdown plans and 24% among those taking lump sum plans. This reflects the upwards trend in housing prices in the UK since 2014, which has increased the housing wealth at people's disposal at a time when low interest rates have weighed down on savings and investment growth.

Average house price of new customers



However, customers continue to draw on proportionate amounts of housing wealth compared to the maximum of 50%+ loan to value (LTV) that is available on the market. Year-on-year, the average housing wealth of new drawdown customers has risen by £38,792 (12%), while the average initial withdrawal these customers make has risen by £7,523 (14%) from £52,436 in H1 2016 to £59,958 in H1 2017. With £33,949 reserved for future use, it gave new drawdown customers in H1 2017 an average LTV of 26.2%.

This compares to 31.1% among new lump sum customers, with average housing wealth among this group having grown by £23,746 (8%) from H1 2016. The typical plan size has increased by a more conservative £4,755 (5%) from £90,632 to £95,386. It means both customer groups are exploring equity release with more housing wealth at their disposal than was the case a year ago, but that this is not translating into significantly larger withdrawals.

Average withdrawals and LTV of new customers

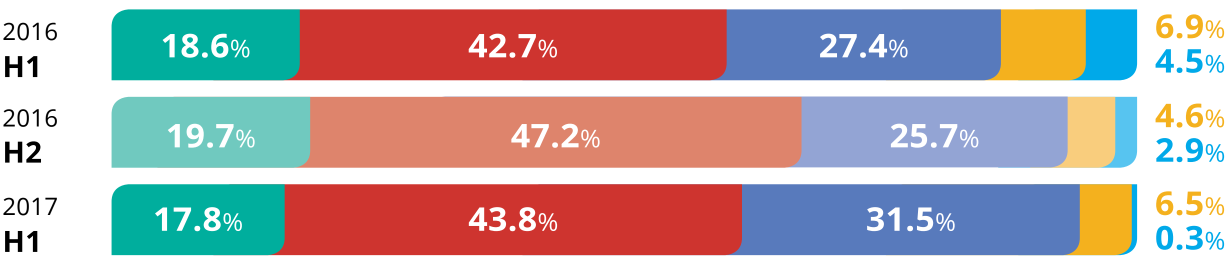
H1 2017	New drawdown plans	New lump sum plans
AVERAGE HOUSE PRICE	£358,392	£306,414
AVERAGE INITIAL ADVANCE	£59,959	£95,386
AVERAGE EXTRA RESERVES	£33,949	n/a
AVERAGE TOTAL LTV	26.2% (16.7% + 9.5%)	31.1%

Looking at the split of new plans by LTV, there has been a reduction in 50%+ LTV plans among new drawdown customers (including extra facilities) over the last year. The LTV breakdown of new lump sum plans tells a similar story, with the data indicating that people are borrowing more moderately against higher value homes.

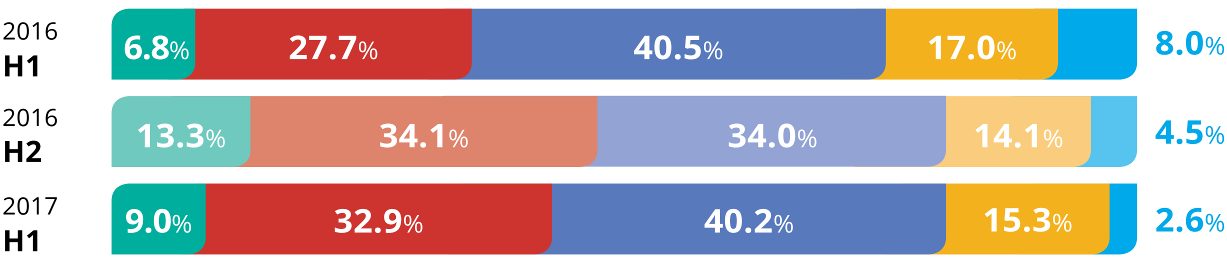
LTV breakdown of new loans

Up to 20% LTV | >20-30% LTV | >30-40% LTV | >40-50% LTV | >50% LTV

LTV breakdown – new drawdown plans including extra facilities



LTV breakdown – new lump sum plans



Returning Customers

Amounts withdrawn by returning customers remain stable or fall year-on-year

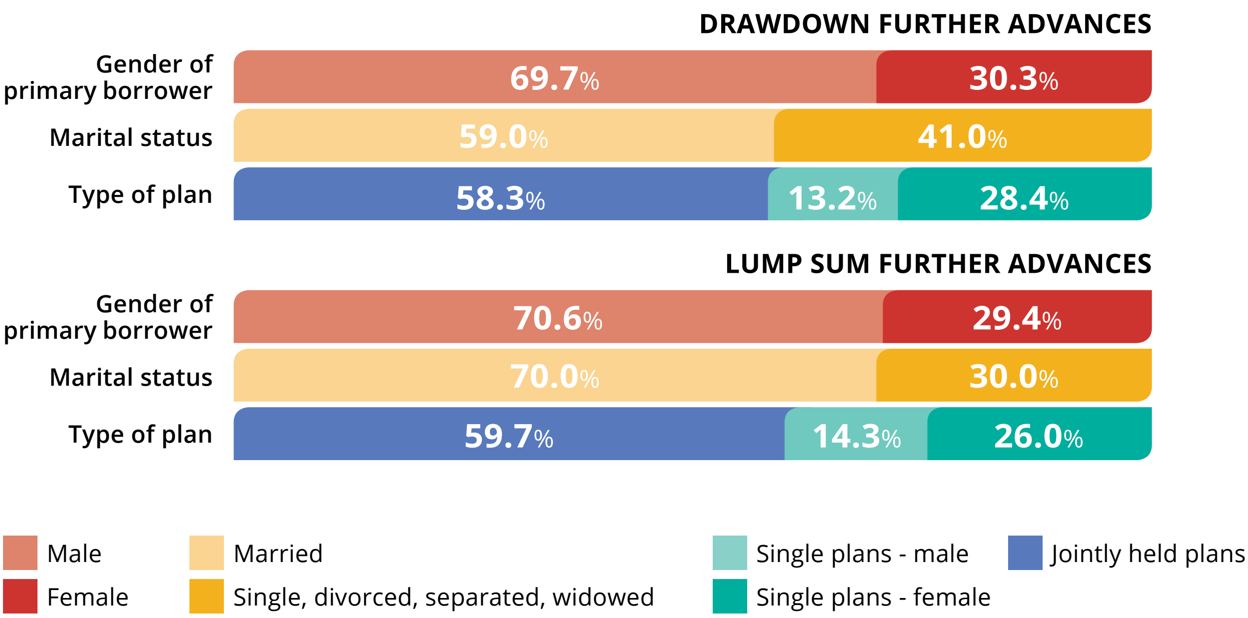
The average age among customers who returned in H1 2017 to dip into agreed drawdown reserve facilities was 74 years old. This was 2.5 years older than the average new drawdown customer in H1 2017 (71.5). Returning drawdown customers withdrew an average of £10,889 each.

Among the small group of further advance customers in H1 2017– those releasing additional equity above and beyond the amount agreed when they first took out an equity release plan – the average lump sum further advance agreed was £20,024, down from £21,934 in H2 2016 and £23,667 in H1 2016.

Seeking a further advance might suggest a continuing need among some customers to boost their retirement income and meet later life expenses, while also indicating the opportunity given to them by rising house prices to unlock more housing wealth as their retirement progresses. However, the data shows that average amounts released have remained stable or fallen year-on-year.

Compared with new plans agreed, further advances taken in H1 2017 were more likely to have a male primary borrower. However, patterns differ between lump sum and drawdown products: a lump sum further advance was more likely than a new lump sum plan to be taken by a married couple, but for drawdown, further advances were more likely than a new drawdown plan to be taken by single, divorced, separated or widowed customers. The gap between single women and single men was also greater for further advances than for new plans.

Gender and marital status of further advance customers – H1 2017



About the Equity Release Council

www.equityreleasecouncil.com

The Equity Release Council is the industry body for the equity release sector, which represents over 650 members including providers, qualified financial advisers, solicitors and other industry professionals.

It works to ensure a safe equity release market for consumers, by operating rigorous Standards for the provision of advice and products which guarantee security of tenure and financial protections. 2016 marked the 25th anniversary since the first industry Standards were created for equity release in 1991. Since then, almost 400,000 consumers have taken out an equity release plan from Council members, drawing on over £20bn of housing wealth.

The Council also works with consumers, industry and policymakers to improve awareness and understanding of equity release and the potential for housing wealth to help solve many of the financial challenges facing people over the age of 55 across the UK.

Key facts and figures

- The first equity release Standards were introduced in December 1991, when the predecessor body Safe Home Income Plans (SHIP) launched. **This evolved to become the Equity Release Council in 2012.**
- The Council today represents over **650 members**, including providers, qualified financial advisers, solicitors and other industry professionals
- All members are committed to the equity release **Council Principles & Standards**, in addition to their regulatory responsibilities
- Since 1991, nearly **400,000 people have taken out an equity release plan** from a Council member, drawing on **over £20bn of housing wealth**. Annual lending has grown from £29m in 1992 to over **£2bn in 2016**.
- The market's post-recession recovery has seen it almost treble in size from £788m in 2011 to **£2.15bn in 2016**: over 75% more than the pre-financial crisis peak of £1.21bn in 2007.

Methodology

The Equity Release Market Report is designed and produced by Instinctif Partners on behalf of the Equity Release Council. It uses aggregated data supplied by all active provider members of The Council to create the most comprehensive view of consumer trends and product uptake across the equity release industry.

The latest edition was produced in Autumn 2017 using data from new plans taken out in the first half of 2017, alongside historic data. All figures quoted are aggregated for the whole market and do not represent the business of individual members. Annual changes are rounded to the nearest percentage point while customer and lending data is reported to one decimal place. Improved data collection processes from January 2017 and greater access to historic records means figures may not be directly comparable to previous editions.

For a comprehensive list of members, please visit The Council's online member directory.

Contact

Find out more about the Equity Release Council, its members and the products and services they provide by visiting **www.equityreleasecouncil.com**

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