Setting the standard in equity release

Equity Release Market Report

Autumn 2016

www.equityreleasecouncil.com

Contents and key findings

Foreword

Our Autumn 2016 Market Report arrives at a time when the state of play in the equity release sector goes beyond the record levels of lending witnessed so far this year to continuing signs of innovation and change.

Clearly market growth is due in no small part to growing consumer demand, as savings shortfalls combine with other financial challenges to leave many over-55s looking for an extra source of income in later life. Even those whose savings and investments have performed well can benefit from housing wealth as a vehicle for intergenerational transfer of wealth and inheritance planning as well as retirement income planning.

All this would be academic without an industry response, but the year to date has already seen new providers, new partnerships and new potential emerging. In May, OneFamily Lifetime Mortgages joining the ranks of Council members and active providers and in July, Legal & General and Key Retirement announced a deal to support Santander's interest only mortgage customers. Looking to the future, household names like Nationwide and new players like Mortgages4Life have made public their intention to bring new products to market.

Established and new providers alike are making strides to compete on interest rates, expand the product range and introduce new flexibilities alongside the Standards and guarantees that have established a safe and reliable market for consumers over the last 25 years. Input from the Regulator to remove unnecessary affordability checks for interest-served products has also been welcome, and we are encouraged by ongoing work by the Financial Conduct Authority (FCA) to consider equity release as part of the solution to support the UK's ageing population.

Consumers stand to benefit from each of these initiatives as the decision to boost retirement finances from housing wealth is increasingly seen in a positive light. They add up to a welcome sense of progress – but certainly no excuse to rest on our laurels, especially with a backdrop of political and economic uncertainty.

As well as working with members to bring equity release to a wider audience, and campaigning for a joined-up approach to government and regulatory decision-making in the retirement arena, The Council has introduced initiatives in its 25th anniversary year to support adviser skills and ensure growing demand can be met while maintaining the high standards of products and advice that consumers rightly expect. This work is set to continue as more people look to their homes as a valuable source of financial wellbeing in later life.

Nigel Waterson, Chairman of the Equity Release Council

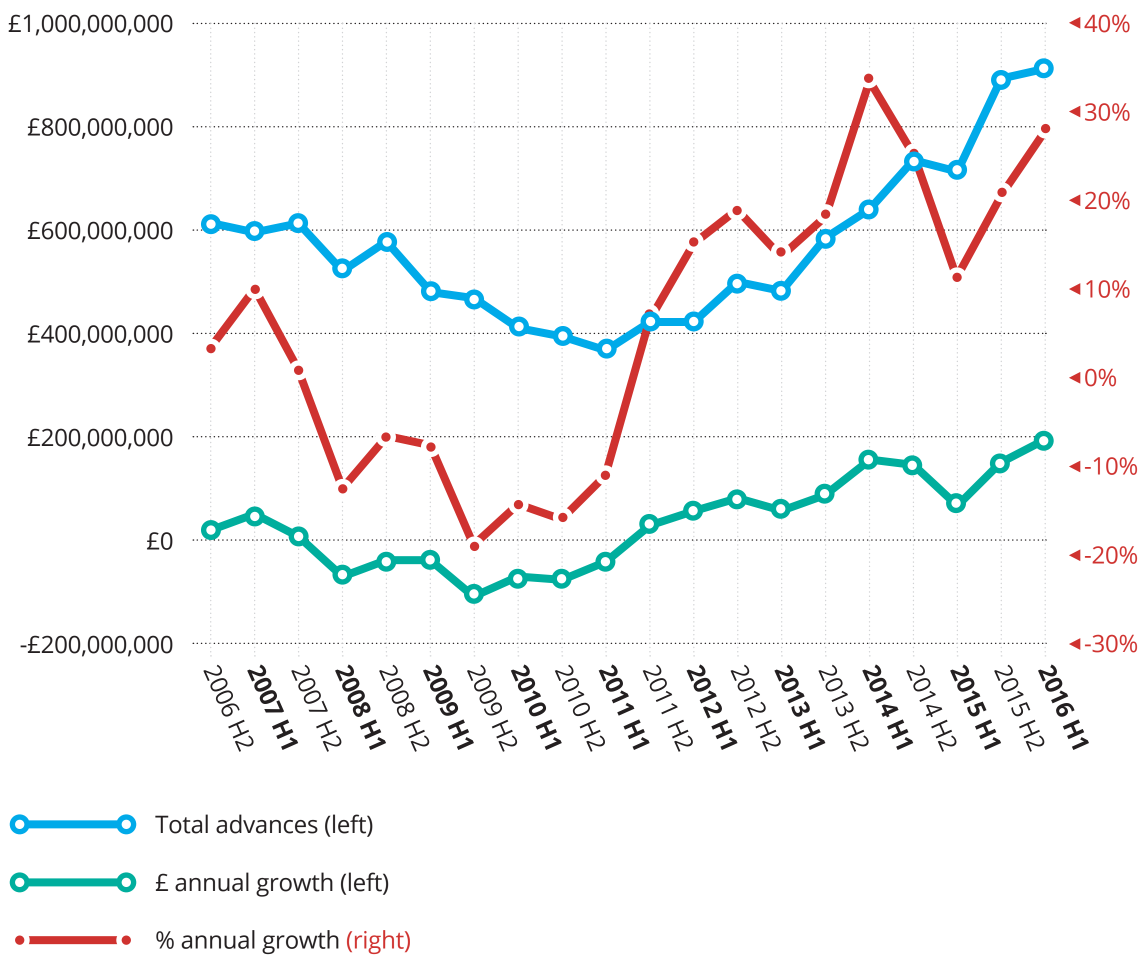
Market trends

Annual lending growth of £198m in H1 2016 was the highest seen in the last decade

Growing consumer appetite for unlocking housing wealth in later life has seen an increasing range of providers, products, features and historically low interest rates emerging in the equity release market, contributing to record lending figures in 2016. With quarterly activity surpassing £0.5bn (£514m) for the first time in Q2 2016, the first half of the year saw £908m of lending in total: £198m (28%) higher than the equivalent period in 2015.

In actual value terms, the £198m annual growth of H1 lending activity in 2016 was the highest seen in the last decade – surpassing £160m in H1 2014 when the market grew by 34% – as the market continues to grow from strength to strength.

Half-year growth rates of equity release lending – 2006 to 2016



Since 2007, equity release lending activity in the second half of each year has been 13% higher on average than the first half of the year. This has increased to 20% over the last five years (2011-2015) and reached 26% in 2015.

Looking ahead, growth of 13% from H1 to H2 this year would result in annual lending reaching £1.93bn for 2016, up 20% from £1.61bn in 2015. A 20% rise from H1 to H2 would see annual lending reach £2bn (up 25% year-on-year) while 26% growth from H1 to H2 would push the 2016 total to £2.05bn: an annual rise of 28%.

The growing popularity of these products is clearly illustrated by the fact that the last three years (H2 2013 – H1 2016) accounts for 25% of all lending (by value) advanced in the last 25 years. In addition, 18% of all new plans (by value) have been agreed over the same period. Based on 2010-2015 data, a report by Mintel in May 2016 forecast that annual lending would reach £2.79bn by 2020, with scenarios ranging from £1.91bn (worst case) to £3.67bn (best case).[1]

"Year-on-year lending growth of £198m in H1 2016 was the highest in the last decade, with 25% of all lending and 18% of new plans agreed since 1991 coming in the last three years (H2 2013 to H1 2016)"

1 - Mintel's Equity Release Schemes - UK - May 2016 report

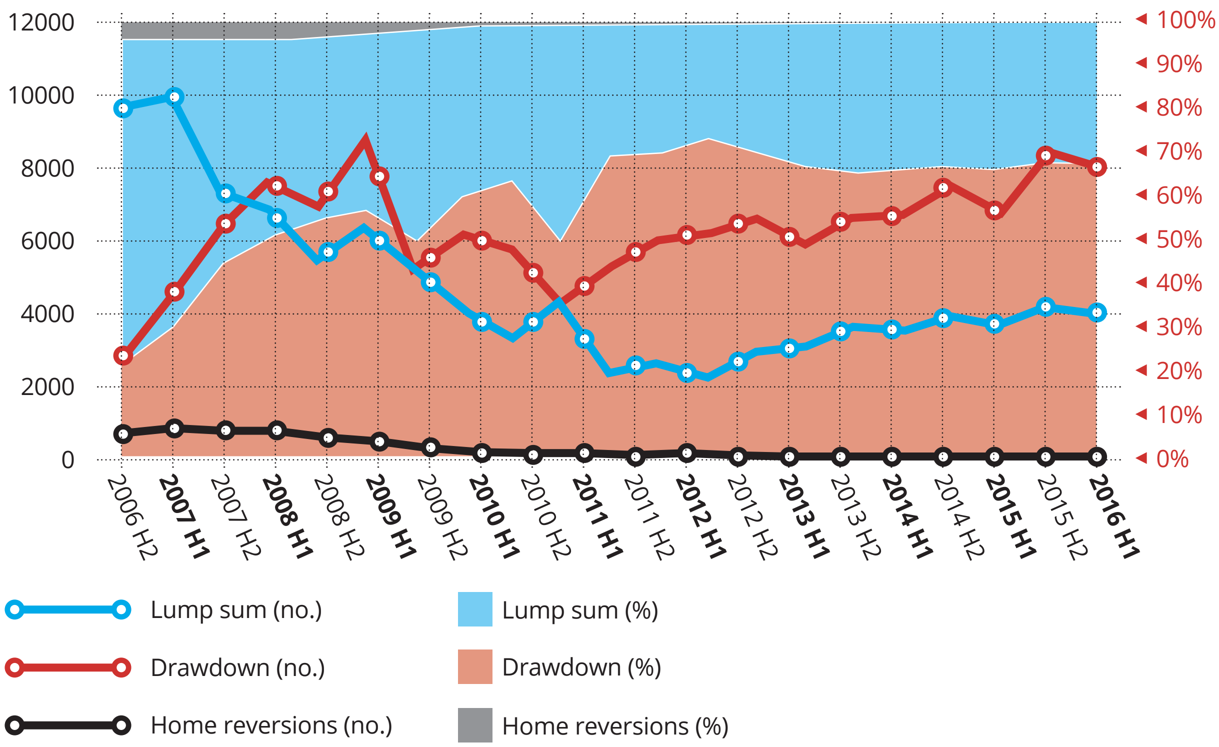
Product choices

2016 sees largest volume of new drawdown plans for any H1 period as product flexibilities grow

Drawdown products accounted for 66.8% of new plans taken out in H1 2016, up marginally from 66.6% in H2 2015 and 65.0% in H1 2015. This continues the trend seen over the last five years where at least 65% of new plans agreed during every half year period since H1 2011 have been drawdown, allowing customers to unlock their equity in instalments over time.

While the value of quarterly advances has increased, the volume of new plans agreed remains lower than the levels seen in the lead-up to 2007/2008 during the market's previous peak. Nevertheless, the 7,917 drawdown plans agreed in H1 2016 (from a total of 11,846 across all product types) was the highest total of any H1 year since these products first emerged on the market in 2005.

Volume of new plans agreed per half year



Research by Moneyfacts, published in March 2016, found that the range of equity release products available on the market has grown by 34% year-on-year and more than doubled compared with three years ago. This trend has brought new flexibilities to the market, and the recent announcement by the FCA that interest-served products will be exempt from Mortgage Market Review (MMR) affordability checks is expected to encourage further innovation. This flexibility gives customers the option to make interest repayments initially with the option to revert to roll-up interest at any point, and unlike a residential mortgage there is no risk of repossession in the event of default.
For the second successive half-year period, market data also suggests over 50% of new equity release plans agreed allowed borrowers to make voluntary repayments up to a certain value – typically 10% per annum – without an early repayment charge. Offering this option helps customers who wish to make repayments limit the total amount owed over the lifetime of their loan.

Another relatively new and emerging feature being offered by some providers is downsizing protection. This typically allows the loan to be repaid in full without the requirement to pay an early repayment charge if this is done in conjunction with moving to another property, and providing the loan has been running for at least five years. This flexibility now allows for more choice to either repay or port the loan to the next property.

The percentage of new plans featuring enhanced terms – which can allow customers to release more equity from their homes based on lifestyle and medical factors – also grew slightly from 16.8% in H2 2015 to 17.3% in H1 2016.

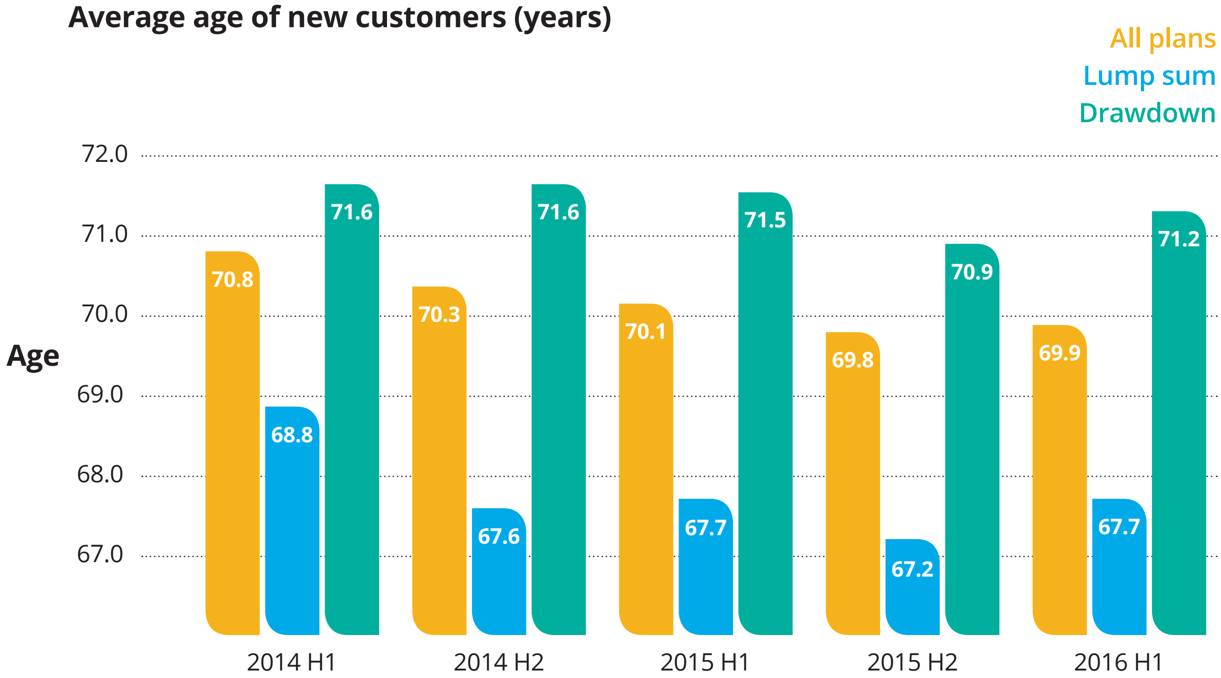
Customer profiles

New customers aged 75+ still outnumber those aged 55-64, while 65-74 remains the largest age group

The average age of equity release customers in H1 2016 increased slightly compared with the previous six months, from 69.8 to 69.9 years old. This remains below the 70.1 years seen a year ago in H1 2015 and is nearly a full year younger than two years ago when the average customer was aged 70.8 years.

The increase from H2 2015 was driven by a slight increase in the average ages of both drawdown and lump sum customers. Lump sum customers were typically aged 67.7 years and drawdown customers are typically aged 71.2 years – up from 67.2 and 70.9 respectively. The average drawdown age has been the most stable over the last two years while today's lump sum customers are over a year younger on average than in H1 2014.

Average age of new customers (years)

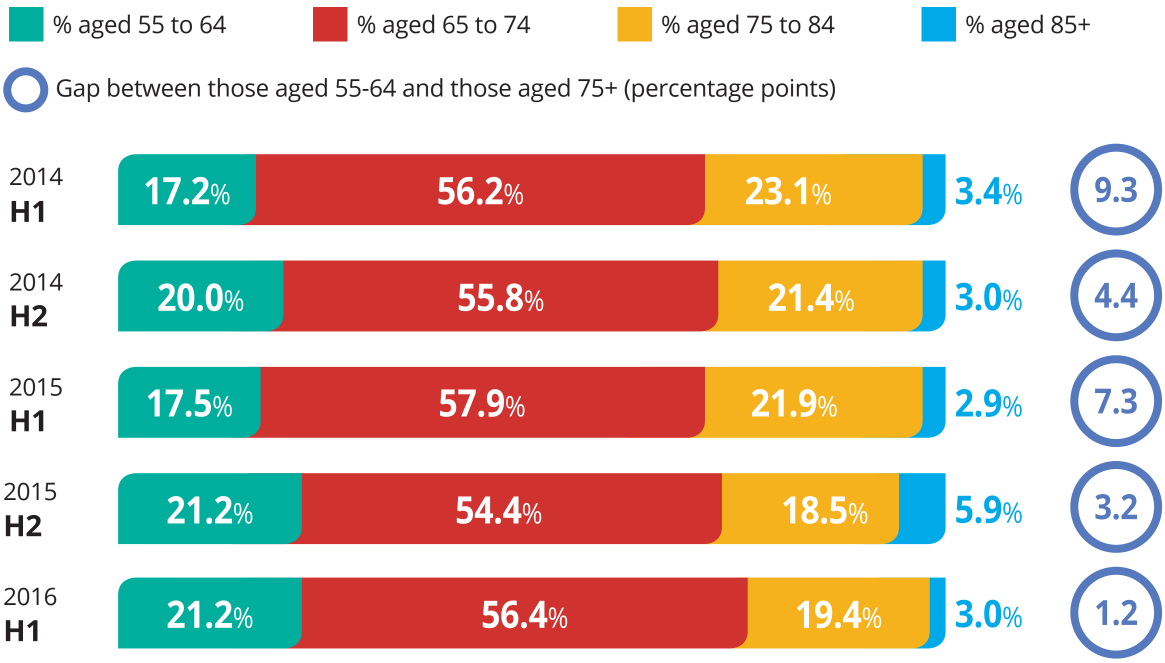


Between 65-74 remains the most common age when customers take out equity release products, with 56.4% of customers in H1 2016 falling into what was traditionally the first decade of retirement for many people during the era of the Default Retirement Age. This age bracket accounts for nine in ten customers who took out home reversion plans in H1 2016.

However, the overall percentage for the market is lower than a year earlier (57.9% - H1 2016) while the share of new customers aged 55-64 has risen from 17.5% to 21.2%. It has remained at this level for two successive half-year periods which clearly indicates the appeal of equity release products to younger homeowners. It may be a sign that people are starting to look at housing wealth as a potential asset earlier in the retirement planning process, or that more find themselves with existing borrowing – including interest-only mortgages – to pay off as they move into later life.

The first six months of 2016 also saw an increase in the proportion of customers aged 75-84, with 19.4% aged within this bracket compared with 18.5% in H2 2015. This remains lower than was the case from H1 2014 to H1 2015, but means that equity release customers over the age of 75 (22.4% in total) continue to outnumber those under the age of 65 (21.2%).

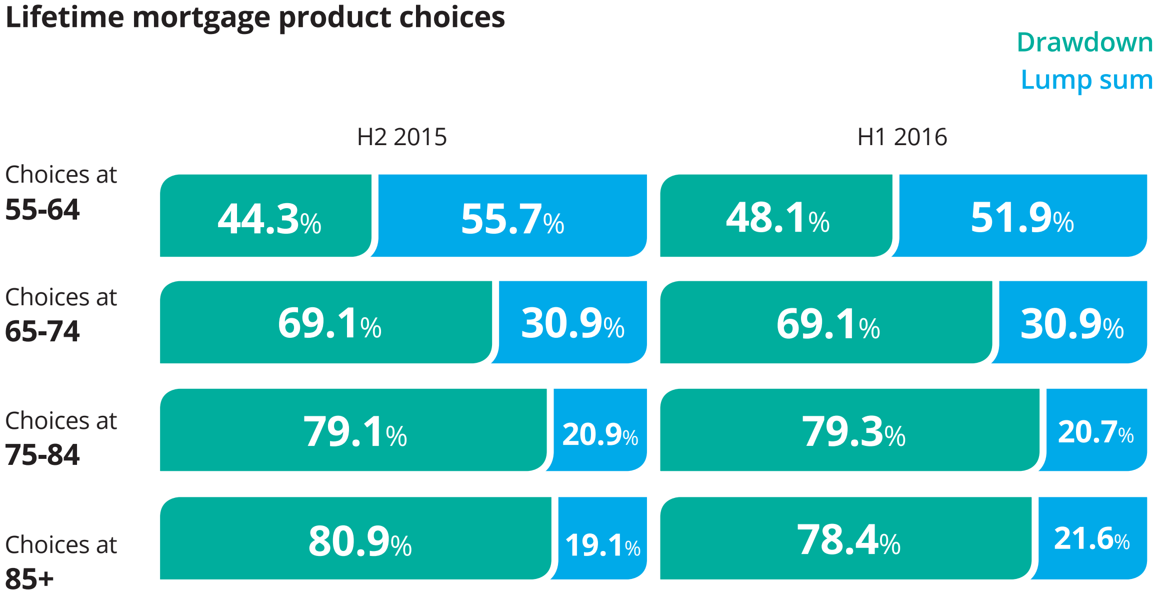
Age breakdown of new customers – all



For 55-64s, the most popular lifetime mortgage option was lump sum products. These typically pay out a larger amount in a single upfront release of housing wealth, and can provide capital for a range of purposes including funding home improvements and paying off existing mortgage debt and other borrowing.

Drawdown remained the most popular choice for the older age groups, as people take smaller amounts in stages which can boost their retirement finances later in life or meet multiple needs over a period of time. However, despite these broad preferences, it is noticeable that a higher percentage of 55-64s took out drawdown products in H1 2016 than in H2 2015, while a higher percentage of over-85s took lump sum products: demonstrating the flexibility of both options to meet a range of customer needs at different stages of life.

Lifetime mortgage product choices



The proportion of new customers who are married or cohabiting increased to 66.1% in the first half of 2016 – the highest in 18 months – while those who are single, separated, divorced or widowed fell to 34.1%, down from 38.9% one year earlier.

In line with this, there was also an increase in the percentage of joint plans in H1 2016, up to 59.4% from 55.1% in the previous six months as more agreements involved two named borrowers. Plans taken out by single males or females dropped as a result, with the share of plans taken out by single females falling further (3.3 percentage points, from 29.6% to 26.3%) than single males (1.1 percentage point, from 15.4% to 14.3%).

Marital status of new customers and setup of new plans

	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1
% of new customers married/cohabiting	65.6%	69.5%	61.2%	65.7%	66.1%
% of new customers single, separated, divorced or widowed	34.1%	31.2%	38.9%	34.3%	34.1%
% of new plans held jointly	63.9%	59.5%	58.7%	55.1%	59.4%
% of new plans held by single males	13.4%	13.1%	14.7%	15.4%	14.3%
% of new plans held by single females	22.8%	27.3%	26.6%	29.6%	26.3%

Housing wealth withdrawals

Greater equity at their disposal leaves many customers taking a modest percentage

The average value of a home owned by a new equity release customer continued to grow in H1 2016, reaching £306,854: up by 8.1% from a year earlier when the average new customer's home was worth £283,806. This is within the range of annual growth figures reported by national house price indexes such as Halifax (8.4% to July 2016), Nationwide (5.6% to July 2016) and the Land Registry and Office for National Statistics UK House Price Index (8.3% to July 2016) as homeowners have continued to benefit from equity growth over the last year.

Drawdown trends

The average house price for drawdown grew by a more modest 5.0% year-on-year from £304,340 in H1 2015 to £319,600 in H1 2016. This remains significantly above the average UK house price (£217,000 according to the UK House Price Index in July) and may reflect older homeowners seeking to take out equity release plans on family homes that are larger than the average property.

Initial drawdown advances were down slightly year-on-year to £46,204 compared with £46,956 a year earlier, although customers are reserving more to draw down at a later date (£39,307, compared with £32,348 a year ago). This leaves an average combined LTV of 26.8%, with just 14.5% taken upfront: little changed from two years ago when the average LTV was 26.7%. It suggests that borrowing remains in proportion to total housing equity, with growing house prices resulting in greater sums being released.

New drawdown lifetime mortgages

2014	H1	H2
AVERAGE HOUSE PRICE	£283,836	£300,836
AVERAGE WITHDRAWAL	£44,464	£47,831
AVERAGE WITHDRAWAL	£31,372	£26,820
AVERAGE LTV	26.7% (15.7% + 11.1%)	24.9% (15.9% + 8.9%)

2015	H1	H2
AVERAGE HOUSE PRICE	£304,340	£301,971
AVERAGE WITHDRAWAL	£46,956	£49,607
AVERAGE WITHDRAWAL	£32,348	£36,668
AVERAGE LTV	26.1% (15.4% + 10.6%)	28.6% (16.4% + 12.1%)

2016	H1
AVERAGE HOUSE PRICE	£319,600
AVERAGE WITHDRAWAL	£46,204
AVERAGE WITHDRAWAL	£39,307
AVERAGE LTV	26.8% (14.5% + 12.3%)

Lump sum trends

The average house owned by new lump sum customers grew by a comparatively high 16.6% over the last year, potentially as equity release begins to attract a broader audience and appeals to consumers with more valuable homes. It could also be the case that these customers are more likely to have lingering mortgage debt in later life, owing to the higher value of their homes, which would increase the appeal of a lump sum lifetime mortgage as a method to pay this off.

However, the average amount withdrawn from these products dipped by 4.0% from H2 2015 to H1 2016 and was just 0.7% higher at £78,088 than a year earlier (£77,494). The scale of increase is greater over two years (17.5%) but it still suggests recent borrowing patterns are modest when compared with people's total housing wealth. The average LTV for a lump sum product dropped below 30% (to 27.6%) for the first time since H1 2014.

New lump sum lifetime mortgages

2014	H1	H2
AVERAGE HOUSE PRICE	£247,745	£243,535
AVERAGE WITHDRAWAL	£66,469	£74,209
AVERAGE LTV	26.8%	30.5%

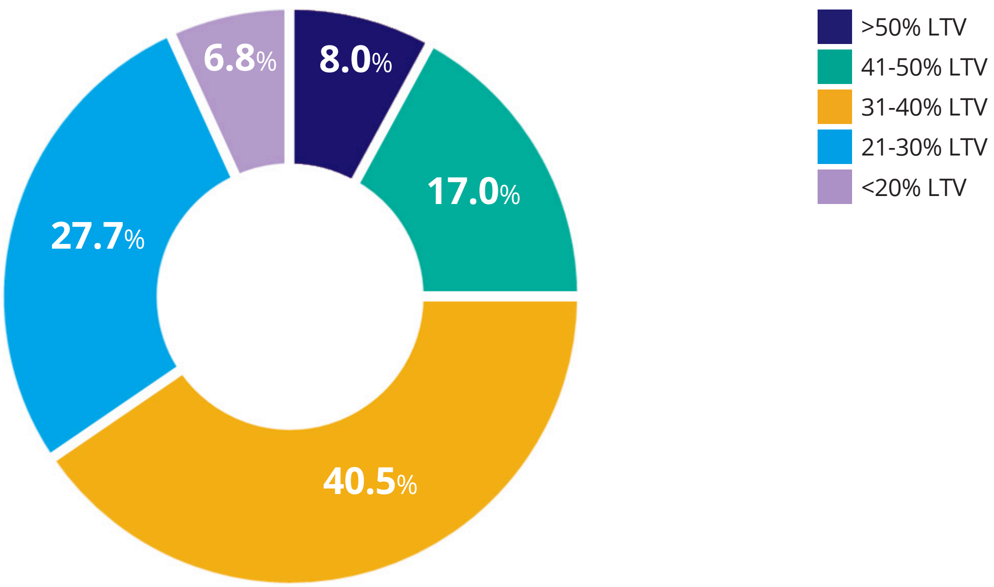
2015	H1	H2
AVERAGE HOUSE PRICE	£242,476	£264,397
AVERAGE WITHDRAWAL	£77,494	£81,324
AVERAGE LTV	32.0%	30.8%

2016	H1
AVERAGE HOUSE PRICE	£282,668
AVERAGE WITHDRAWAL	£78,088
AVERAGE LTV	27.6%

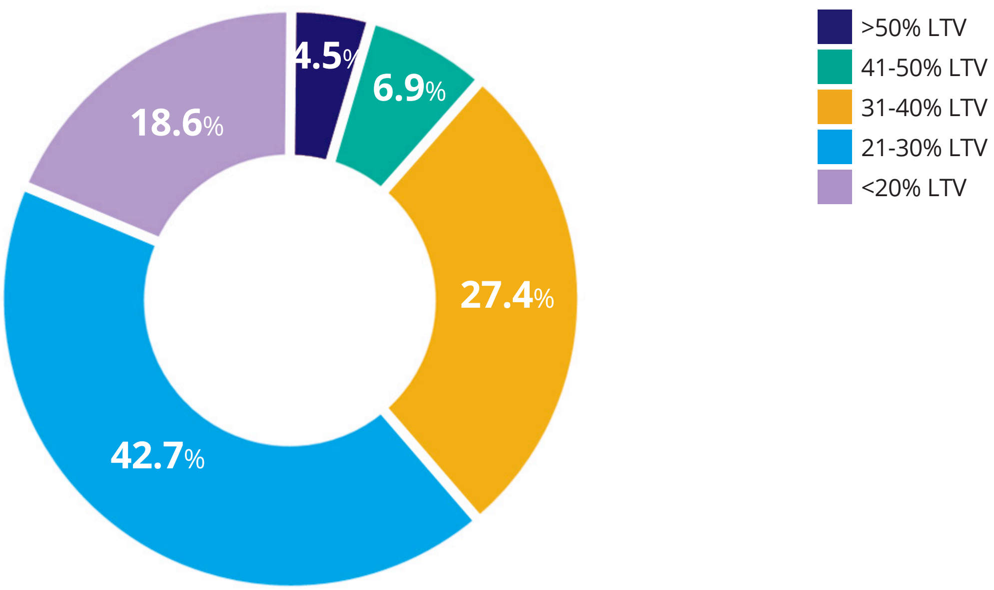
Moneyfacts research in March 2016 on the growing equity release product range noted that over half of the available products in the market now offered a maximum LTV of 50% or higher. The Council's analysis suggests many customers are taking a smaller share out of the value of their properties to boost their later life finances. Three in four (75.0%) lump sum plans agreed in H1 2016 had an LTV of 40% or lower, while this was also true of almost nine in ten (88.6%) drawdown plans including extra reserves set aside for future use.

Nevertheless, the flexibility to take out a plan above 50% LTV is clearly of value to consumers: nearly one in 12 lump sum customers exercised this option along with nearly one in twenty drawdown customers. Maximising LTVs can help those with outstanding mortgages who typically require a larger release of equity to repay their existing lending.

LTV of new lump sum plans - H1 2016



LTV of new drawdown plans (including extra reserves) - H1 2016



Home reversion trends

The average amount of housing wealth released through a home reversion plan in H1 2016 was £63,636 from a home valued at £160,000 (compared with an average house price of £183,000 among home reversion customers in the previous six months). While these products are not loan arrangements, the latest figures give an average 'LTV' of 39.8% for comparison purposes.

This is notably higher than the average for either lump sum or drawdown lifetime mortgages, influenced by the fact that home reversions are not impacted by interest charges and growing repayment obligations – offering more leeway to release a greater share of equity from the outset.

Personal borrowing rates tracker

Competition drives equity release pricing to new lows as cuts outpace residential mortgage rates

Growing competition in the equity release market has continued to have a positive impact on rates in the first half of 2016. The appearance of new products from members of The Council has included some offering variable rates which are capped at a certain level, in order to fit the requirements of industry product Standards and give long-term certainty to consumers.

Lifetime mortgages differ from 'standard' residential mortgages in that they guarantee a fixed or capped rate of interest for an indefinite term; guarantee the right to tenure without regular repayments being required; and protect the customer against negative equity, with the provider absorbing this risk.

Because of this, lifetime mortgage providers typically use different funding sources and have to account for additional factors such as longevity risk which impact the available interest rates. Nevertheless, despite these differences, lifetime mortgage rates fell further than any category of mortgage product during the first half of 2016, with an increasing range of providers offering rates below 5%.

Average product rates (%)	Jan-16	Jul-16	Change (basis points)
Overdrafts	19.67	19.68	+1
Credit cards	17.96	17.94	-2
Personal loans (£5k)	9.11	9.27	+16
Equity release	6.20	5.96	-24
5 year fixed rate mortgage - 95% LTV	4.73	4.65	-8
SVR mortgages	4.56	4.52	-4
Personal loans (£10k)	4.29	4.15	-14
2 year fixed rate mortgage - 95% LTV	3.93	3.86	-7
10 year fixed rate mortgage - 75% LTV	3.27	3.05	-22
2 year variable rate mortgage - 90% LTV	2.67	2.61	-6
Lifetime tracker mortgages	2.57	2.57	n/a
5 year fixed rate mortgage - 75% LTV	2.73	2.52	-21
3 year fixed rate mortgage - 75% LTV	2.18	2.08	-1
2 year fixed rate mortgage - 75% LTV	1.90	1.72	-18
2 year variable rate mortgage - 75% LTV	1.68	1.72	+4

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

About the Equity Release Council

www.equityreleasecouncil.com

The Equity Release Council is the industry body for the equity release sector, which represents over 400 members including providers, qualified financial advisers, solicitors, surveyors 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 marks the 25th anniversary since the first industry Standards were created for equity release in 1991. Since then, nearly 370,000 consumers have taken out an equity release plan from Council members, drawing on almost £18bn of housing wealth.

The Council also works with consumers, industry and policy makers 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 400 individual members and 150 member firms**, including providers, qualified financial advisers, solicitors, surveyors and other industry professionals
- All members are **committed to support the equity release Standards, Principles, Rules and Guidance set out by The Council**, in addition to their regulatory responsibilities
- Since 1991, nearly 370,000 people have taken out an equity release plan from a Council member, **drawing on nearly £18bn of housing wealth**. Growing consumer demand means 25% of lending and 18% of new plans have been advanced in the last three years (H2 2013-H1 2016).
- Annual lending has **grown from £29m in 1992 to £1.61bn in 2015**. The market's post-recession recovery has seen it more than double in size from £788m in 2011 to **£1.61bn in 2015: 33%** 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 August 2016 using data from all new equity release plans taken out in the first half of 2016, alongside historic data from over 60,000 new plans taken out since 2011. 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.

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**

For media enquiries, please contact:
Andy Lane, Jordan Campbell, Victoria Heslop or Will Muir at Instinctif Partners

Tel: 020 7427 1400

Email: twc.theequityreleasecouncil@instinctif.com

EQUITY RELEASE COUNCIL
25 YEARS OF SAFE EQUITY RELEASE
SINCE 1991

3rd Floor, Bush House, North West Wing, Aldwych,
London WC2B 4PJ
tel: 0844 669 7085
email: info@equityreleasecouncil.com

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