Setting the standard in equity release

Equity Release Market Report

Spring 2017

www.equityreleasecouncil.com

Contents and key findings

Foreword

The Spring edition of the Equity Release Market Report shows that a record breaking year for lending activity also saw the sector become the fastest growing segment of the mortgage market in terms of customer numbers. Burgeoning demand from older homeowners to unlock their housing wealth as part of a holistic approach to later life planning is rapidly propelling the sector into the mainstream, as the number of providers and advisers continues to grow.

Research by The Council at the end of 2016 highlights the logic in considering housing wealth alongside other types of retirement funding. Over the past 20 years, the average pensioner's house increased in value by 148% in real terms, compared to a 66% increase in their overall retirement incomes. The income pensioners draw from other sources like cash benefits and investments grew marginally or even fell – creating a need for new income streams beyond the age of 55.

Housing wealth has many uses beyond supplementing retirement income, however. With younger would-be homeowners increasingly stretched by rising house prices, many families are turning to equity release as a vehicle to get children or grandchildren on to the property ladder, as well as paying down their own mortgage debts. While the government's recent housing white paper brought intense speculation about downsizing incentives, equity release is and will remain an important option for those older people who either wish to remain in their current homes, or have even downsized already and need an extra financial boost.

Policymakers' attitudes towards equity release continue to improve, and the sector enjoys good relationships with both the government and the Financial Conduct Authority (FCA). This year will bring the publication of the FCA's Ageing Population Strategy, which we look forward to engaging with. We were also encouraged that recent Treasury proposals for the Pensions Advice Allowance recognised that advice on housing wealth is an important part of consumers' later life financial planning.

Last year marked the 25th anniversary since the first industry Standards were introduced to establish a safe and reliable market for consumers. With demand growing and Council membership passing the 500 mark, equity release looks set to play an ever more significant role in retirement planning in the years ahead, and we are absolutely committed to ensuring best practice in the provision of products and advice for a growing number of consumers.

Nigel Waterson, Chairman of the Equity Release Council

Market trends

Record breaking year sees equity release growth outpace other types of mortgage finance

A total of £1.24bn in housing wealth was unlocked by over-55s in H2 2016: 37% more than the £908m in H1 and 38% up on the H2 2015 total of £898m. This growth resulted in a record breaking year for the equity release sector, with activity in 2016 surpassing the £2bn mark for the first time to reach £2.15bn and over 27,500 new plans agreed – the most since 2008.

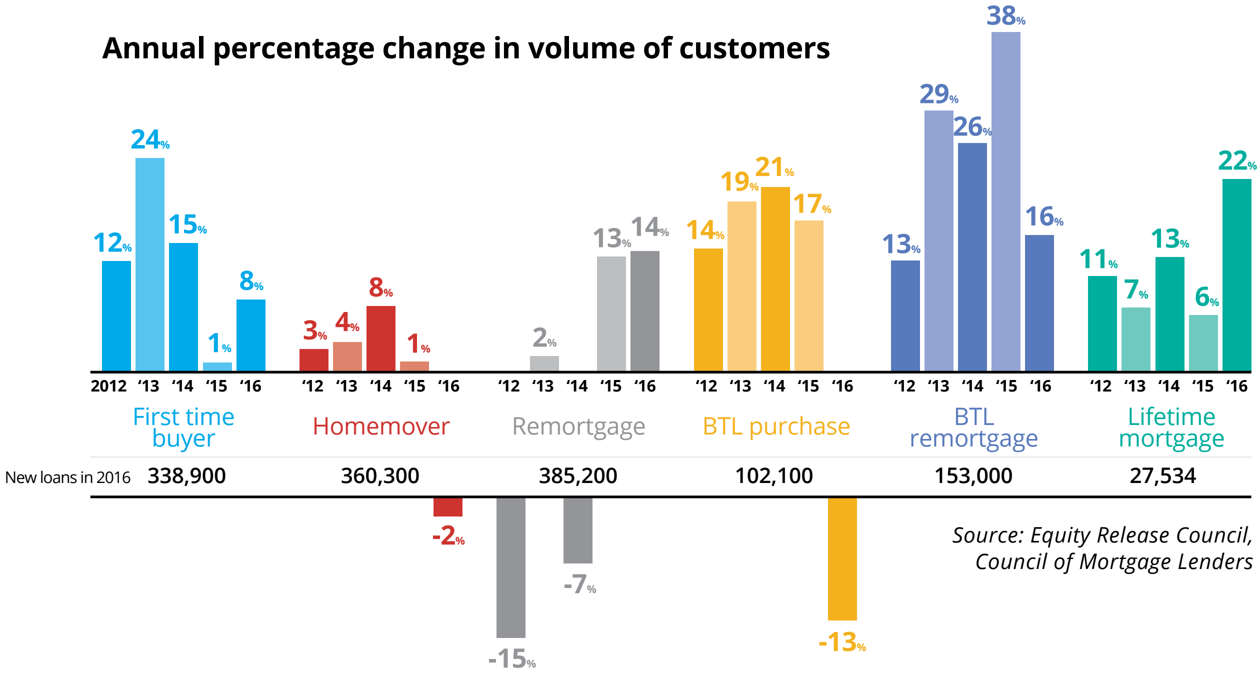
This coincided with the 25th anniversary of the first industry Standards being introduced to establish a safe and reliable market for consumers, and confirms its growing appeal as a source of retirement funds. Measured by the value of lending, the market has almost trebled in size in the five years since £789m of activity was seen in 2011.

The annual lending increase of 34% was double the rate of 2015 (16%), resulting from increasing consumer appetite and a growing range of providers, products and features appearing on the market offering historically low interest rates. The fourth quarter of 2016 alone saw £670 million of lending, also breaking quarterly records.

Customer numbers

Having played a modest role in the UK housing market to date, lifetime mortgages – the most common type of equity release product in recent years – nonetheless recorded the largest percentage growth rate of customer numbers in 2016 compared with other types of mortgage finance as the sector experienced rising demand. Annual growth of 22% – resulting in 27,534 new plans agreed – compared with 16% growth for buy-to-let (BTL) remortgaging, which was the second fastest-growing segment of 2016, having been the fastest grower in 2013-2015.

Annual percentage change in volume of customers



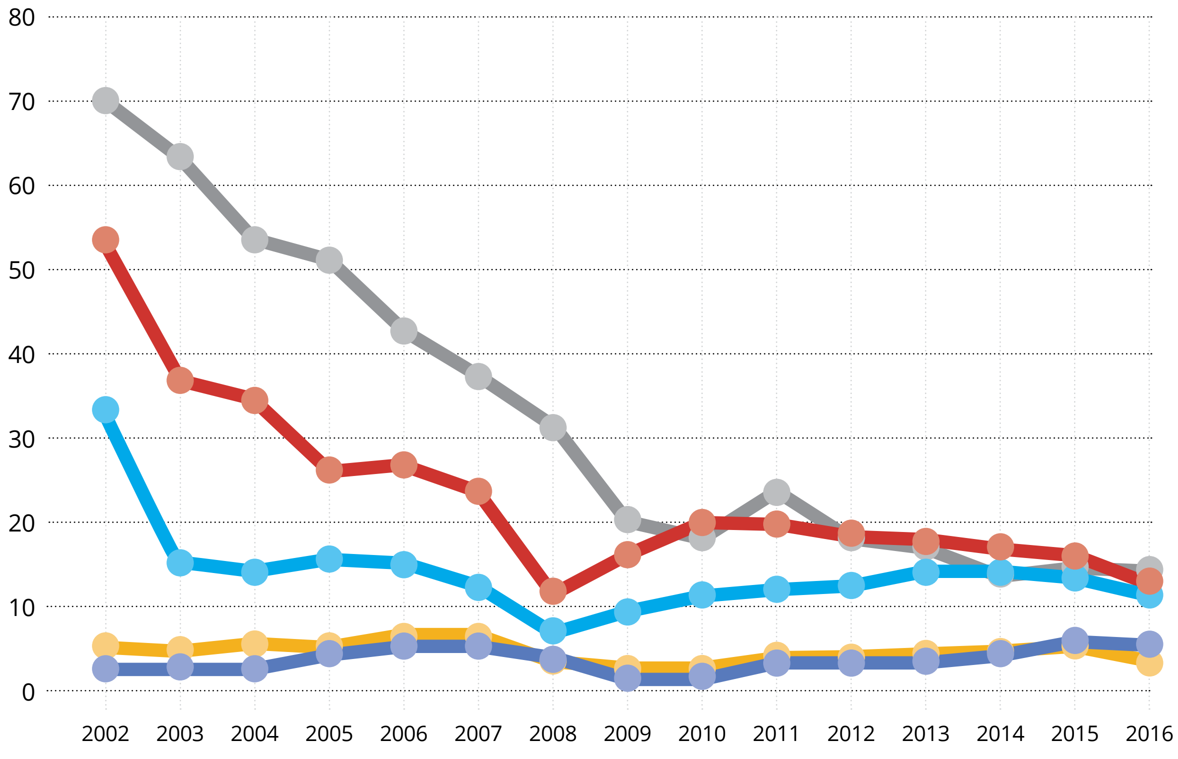
Source: Equity Release Council, Council of Mortgage Lenders

Demand for unlocking housing wealth is creating new opportunities for advisers and providers to develop their businesses and help meet the increasing public appetite to explore equity release. Other parts of the mortgage market saw contrasting fortunes in 2016: remortgaging numbers rose by 14% and first-time buyers by 8% while homemovers (-2%) and BTL purchases (-13%) fell into decline.

With demand expected to increase as older consumers take an increasingly holistic view of their wealth and assets when making retirement and inheritance plans, the equity release sector is on course to become a more mainstream part of the mortgage finance and later life financial planning landscape.

Back in 2006, there was one new lifetime mortgage plan agreed for every 27 homemover mortgages and 43 remortgages. Fast forward to 2016 and the balance has shifted to one new lifetime mortgage for every 13 homemover mortgages and 14 remortgages, as the option to unlock housing wealth beyond the age of 55 becomes increasingly important to older consumers.

Comparing the ratio of new lifetime mortgages to other mortgage approvals (lifetime mortgages:1)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
First-time buyer	1:33	1:15	1:14	1:16	1:15	1:13	1:7	1:10	1:12	1:12	1:12	1:14	1:15	1:14	1:12
Homemover	1:54	1:37	1:35	1:26	1:27	1:24	1:12	1:16	1:20	1:20	1:19	1:18	1:17	1:16	1:13
Remortgage	1:70	1:63	1:54	1:51	1:43	1:38	1:32	1:20	1:18	1:24	1:28	1:17	1:14	1:15	1:14
BTL purchase	1:5	1:5	1:6	1:5	1:6	1:7	1:4	1:3	1:3	1:4	1:4	1:4	1:5	1:5	1:4
BTL remortgage	1:3	1:3	1:3	1:4	1:6	1:6	1:4	1:2	1:2	1:3	1:3	1:4	1:4	1:6	1:6

Source: Equity Release Council, Council of Mortgage Lenders

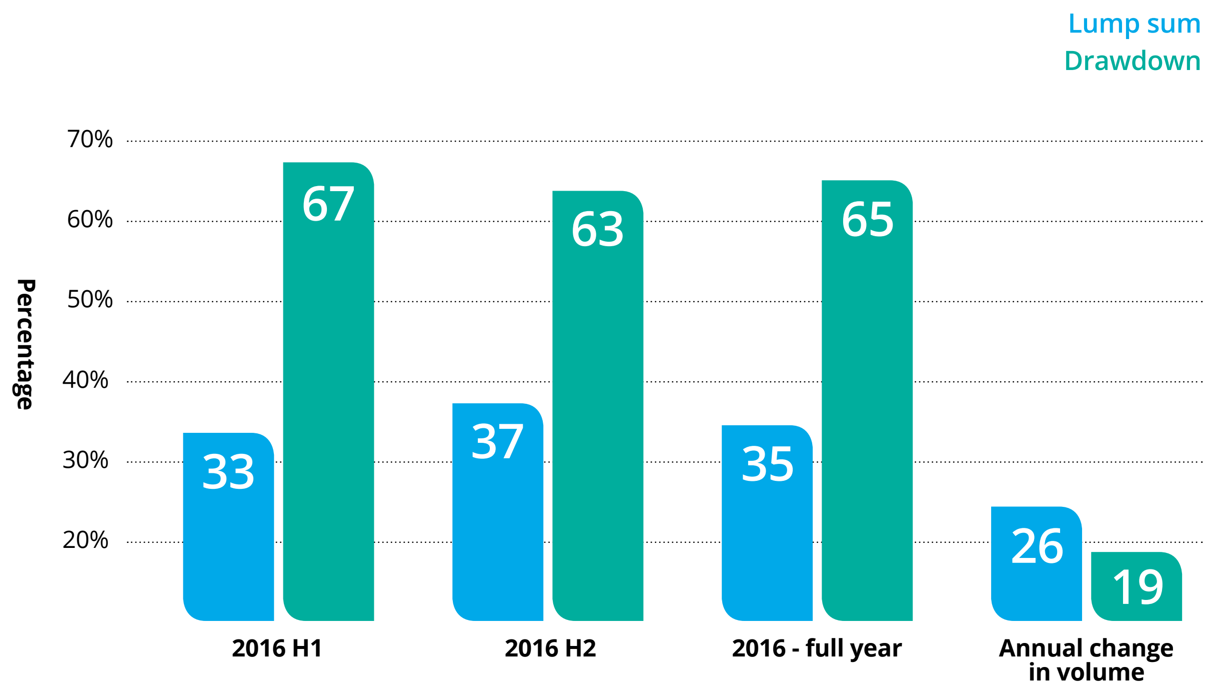
Product choices

Drawdown products remained the majority preference in 2016, with 65% of customers opting for these while 35% chose lump sum products and a small number took out home reversion plans. However, the balance shifted slightly over the course of the year. While 67% of new plans were drawdown in H1, this dropped to 63% in H2 as lump sum popularity grew from 33% to 37%.

As a result, the growth of customer numbers in each segment of the market favoured lump sum over drawdown. Total lump sum plans for 2016 were up by 26% year-on-year to the largest annual total (9,652) since 2008. The total number of drawdown plans reached a new high of 17,822, but growth compared to 2015 was a more modest 19%.

The number of products available on the market continues to grow, providing borrowers with greater choice and flexibility. Research by Moneyfacts found that the product range doubled between 2013 and 2016, with recent years bringing new features and flexibilities such as downsizing protection, capped variable interest rates and options to make monthly interest payments or annual capital repayments without incurring a charge.

Breakdown of new plans agreed



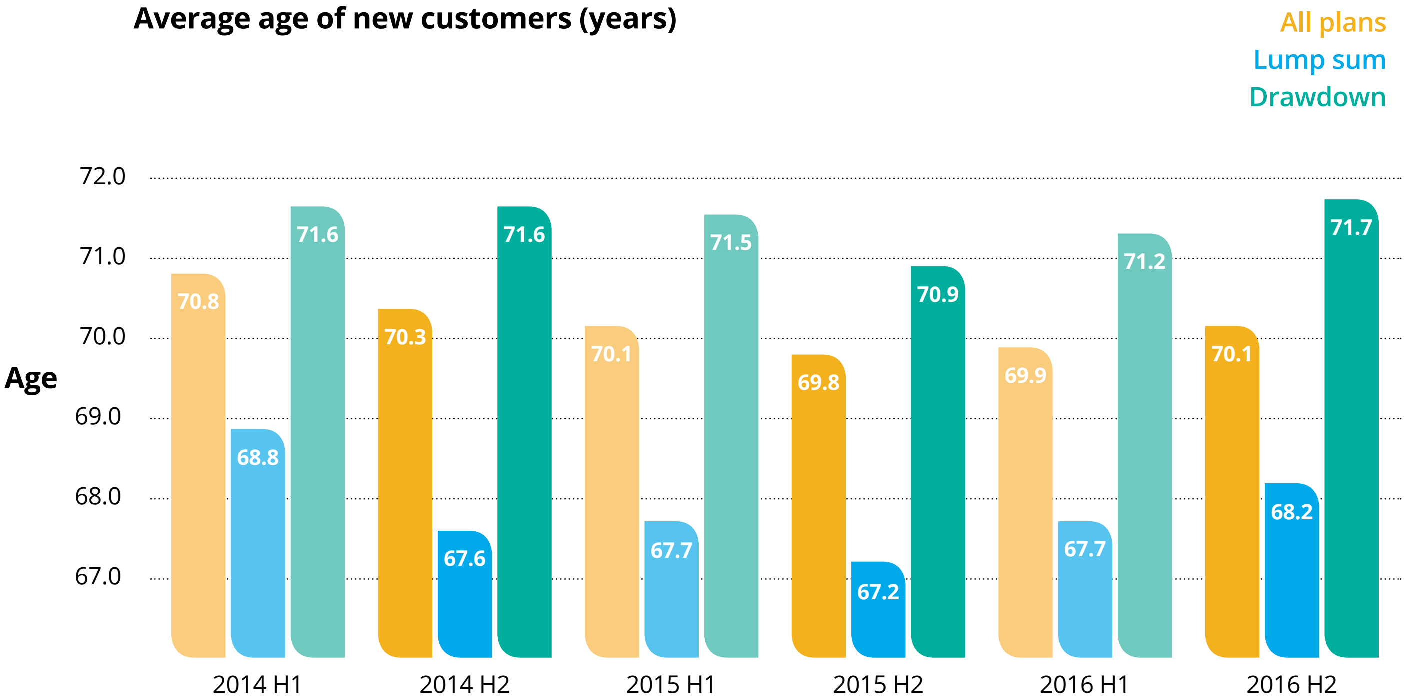
Customer profiles

Average age of new customers edges up as more couples opt for equity release

The average age of equity release customers increased slightly once again in H2 2016, rising from 69.9 to 70.1. This is a second successive rise over a half-year period, and brings the average customer's age back level with that of H1 2015.

The ages of both lump sum and drawdown customers increased by around a year compared with H2 2015. Lump sum customers were typically aged 68.2, up from 67.2 in H2 2015, while the average age of drawdown customers increased from 70.9 to 71.7.

Average age of new customers (years)

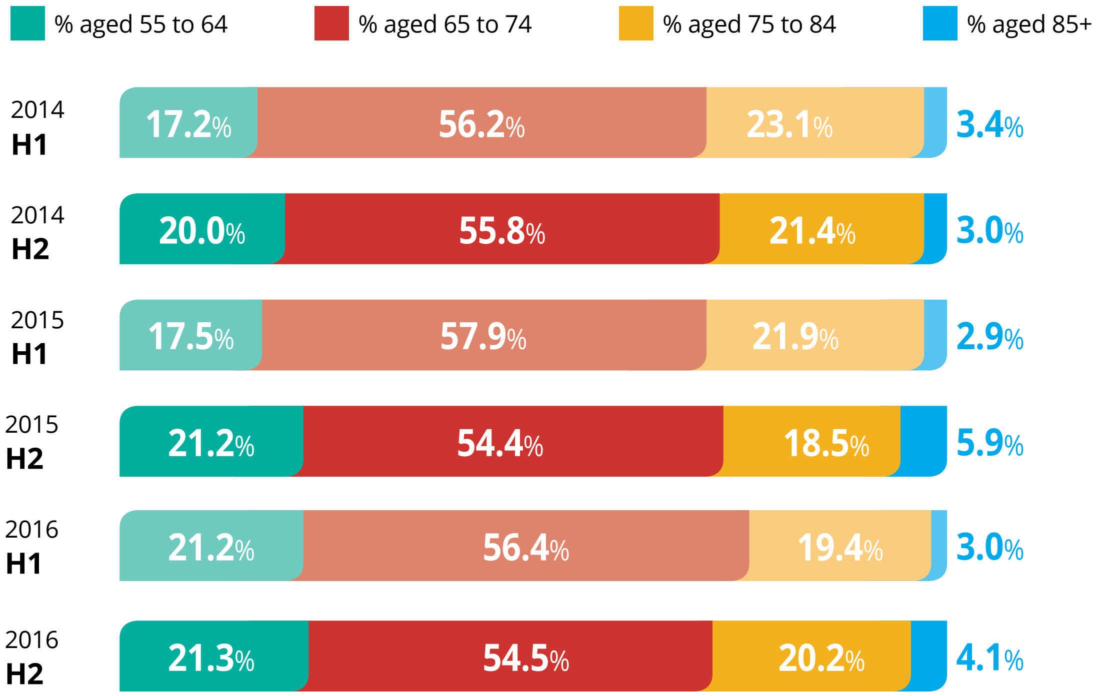


The most common age at which people take out an equity release plan remains between 65 and 74 – typically the first decade of retirement – with 54.5% of all customers falling into this range in H2 2016. However, this was lower than in the first half of the year when it stood 56.4%, and significantly below the H1 2015 high of 57.9%.

The proportion of customers aged 55-64 remained relatively stable at 21.3% in H2 2016, marginally higher than the 21.2% recorded in the first half of 2016. This is also higher than the levels seen in 2014 and early 2015, suggesting equity release's popularity is growing among younger customers.

However, the proportion of older customers aged increased more visibly in H2 2016. Those aged 75-84 increased from 19.4% in H1 2016 to 20.2%, while those aged 85+ increased from 3.0% to 4.1% as the market grew – showing more customers are waiting until later in life to tap into their housing wealth. With almost half of new equity release plans agreed either before a customer reaches the old Default Retirement Age of 65 or after they turn 75, the data suggests that housing wealth is being used flexibly at various stages of later life and for a range of different purposes.

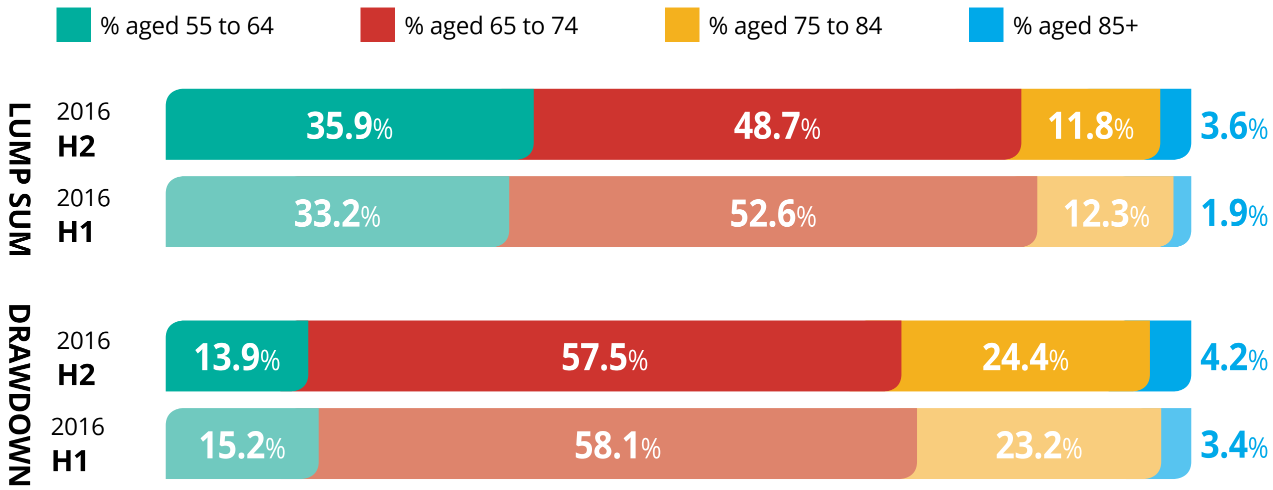
Age breakdown of new customers



A more detailed look at product choices shows that the falling percentage of customers aged 65-74 was seen across both drawdown and lump sum lifetime mortgages. In the case of drawdown, the proportion aged 55-64 also fell, meaning that 28.6% of drawdown customers in H2 2016 were aged 75 or older – two percentage points higher than in H1 (26.6%).

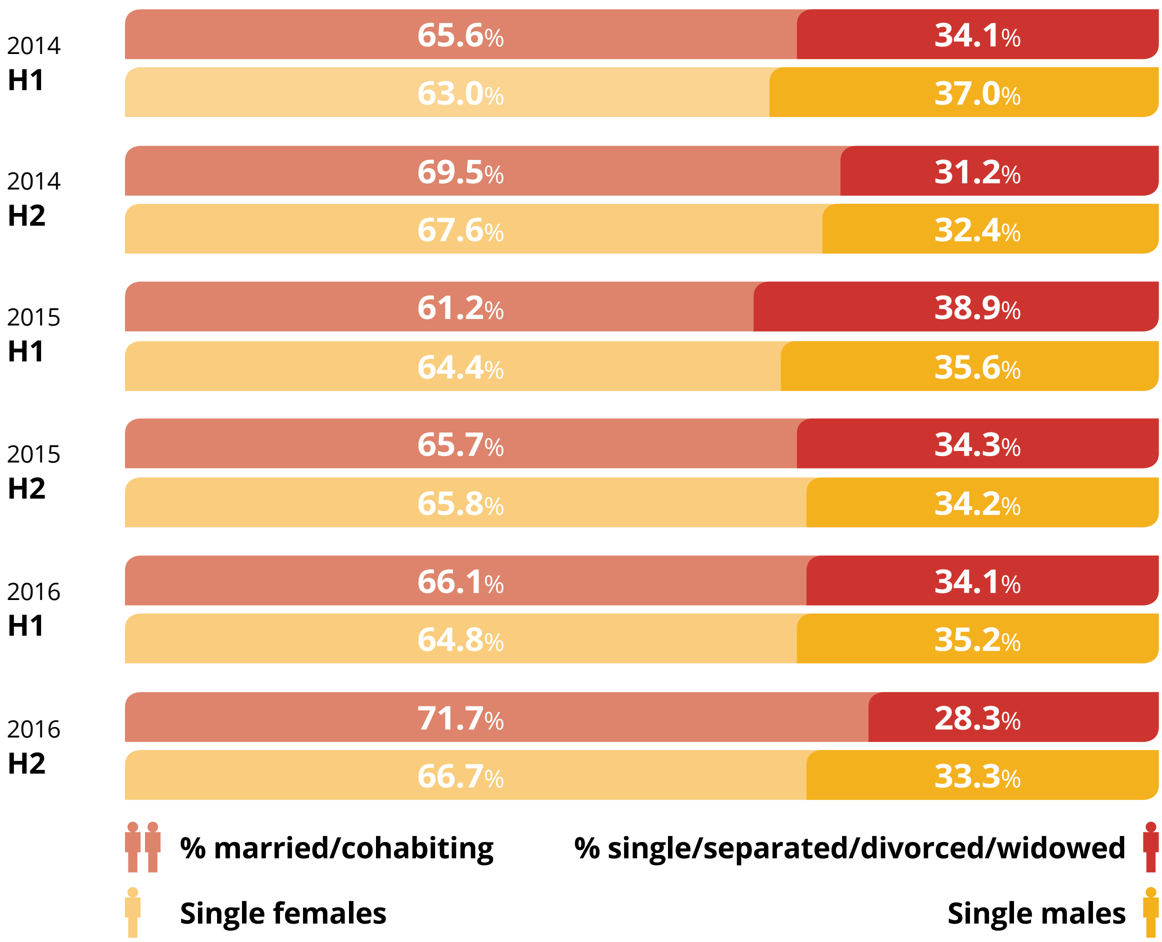
However, lump sum customers were more polarised: the percentage aged 75+ grew from 14.2% to 15.4%, while the percentage aged 55-64 also grew from 33.2% to 35.9%. This is likely to be influenced by the variety of uses people make of their housing wealth – from paying off interest-only mortgages to providing an early inheritance to family members.

Age breakdown by type of lifetime mortgage



The second half of 2016 saw a noticeable increase in the number of new plans taken out by customers who were either married or cohabiting, which reached 71.7%: the highest level since The Council began tracking this in 2014. Accordingly, the proportion of customers who are single, separated, divorced or widowed fell to 28.3%. Among plans held by single customers, the percentage held by single females rose to 66.7% in H2 2016, the highest point in two years.

Marital status of new customers & gender breakdown of new single plans



Housing wealth withdrawals

More customers taking smaller shares of housing wealth, despite increase in average loan size

The average house price of customers across all new plans in H2 2016 was £326,175, which is 10.8% higher than the £294,496 recorded a year earlier in H2 2015. This increase is slightly greater than the rate of annual house price growth recorded by the Office for National Statistics in December 2016, which was 7.2%.

Drawdown trends

The average house price for drawdown customers grew by 13.2% year-on-year, rising from £301,971 to £341,758. This is a higher rate of annual growth than in H1 2016, when it stood at 5.0%. The typical drawdown house price is noticeably higher than the average UK house price, which the ONS reported as being £220,000 in December 2016.

There was also a significant increase in the average initial drawdown advance in H2 2016, which grew by 10.0% from £49,607 in H2 2015 to £54,584 in H2 2016. This is more than £10,000 higher than the £44,464 seen in H1 2014 when The Council began tracking this data.

However, the greater value of their properties meant that drawdown customers unlocked a similar proportion of their housing wealth in H2 2016 as before, with the average loan to value (LTV) of 27.0% little changed from 26.8% in H1 2016 and down from 28.6% in H2 2015.

New drawdown lifetime mortgages

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

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

2016	H1	H2
AVERAGE HOUSE PRICE	£319,600	£341,758
AVERAGE INITIAL ADVANCE	£46,204	£54,584
AVERAGE EXTRA RESERVES	£39,307	£37,751
AVERAGE TOTAL LTV	26.8% (14.5% + 12.3%)	27.0% (16.0% + 11.0%)

Lump sum trends

The average house price for lump sum customers was £296,022 in H2 2016, which is 12.0% higher than a year earlier (£264,397). The noticeable climb in house prices among both lump sum and drawdown customers over the last year suggests that the equity release customer base is becoming more diverse as the market grows and appeals to a broader audience, including those with more significant housing wealth.

Having dipped in H1 2016, there was a noticeable rise in the size of the average lump sum plan in H2 2016 to £92,376, up by 13.6% from £81,324 a year earlier. As a result, the average LTV of lump sum customers rose to 31.2% and is potentially linked to borrowers seeking increased sums to pay off existing interest-only mortgages. However, the average LTV remained lower than the 32.0% seen in H1 2015 as withdrawals of housing wealth remained in proportion to the overall value of customers' homes.

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%

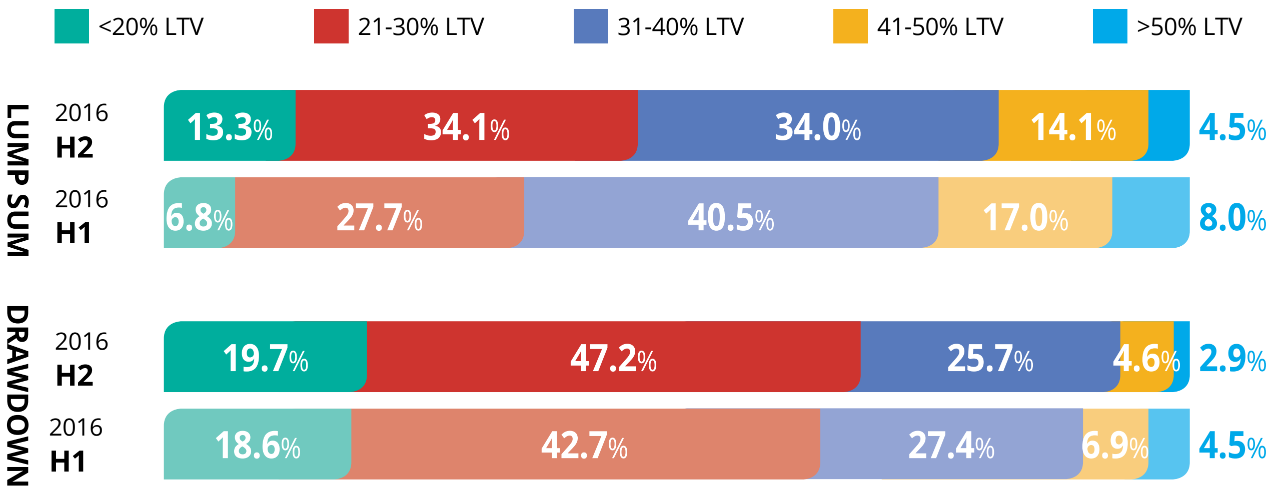
2016	H1	H2
AVERAGE HOUSE PRICE	£282,668	£296,022
AVERAGE WITHDRAWAL	£78,088	£92,376
AVERAGE LTV	27.6%	31.2%

Proportion of housing wealth unlocked

Despite the rise in average loan size, the proportion of lump sum customers taking out smaller amounts, relative to the value of their home, increased between H1 2016 and H2 2016, with almost half (47.6%) having an LTV of 30% or lower in H2 compared with 34.5% in H1. The same trend was visible among drawdown customers: 66.9% set aside no more than 30% of their housing wealth for immediate or future use, up from 61.3% in H1.

There was a corresponding fall in the number of higher LTV products taken out, particularly above 50% LTV. The proportion of drawdown customers in this bracket fell from 4.5% to 2.9%, while the proportion of lump sum customers fell from 8.0% to 4.5%. This trends are likely to be influenced by the higher house prices seen among equity release customers in H2 2016, allowing them to withdraw sufficient equity to meet their needs without taking a larger percentage of their total housing wealth.

Lifetime mortgage LTVs – new plans



Home reversion trends

The average amount of housing wealth released through a home reversion plan was £69,231 in H2 2016, which was 8.7% higher than the £63,636 released in H1. The average property value used in a home reversion plan stood at £888,462 – significantly higher than the average for drawdown or lump sum customers.

Improving lives through housing wealth: **John Greenwood**

Key Retirement

"I'm now retired and the Chairman of a charity that fundraises for medical charities around the UK, which takes up most of my time. I've been in my home for over 60 years and prior to owning it myself it was the family home my siblings and I grew up in. I'm happy here, I love the location, and it's perfect for my living requirements, but last year I wanted to make some home improvements, particularly to the bathroom.

"I came across an advert for equity release and I decided to look into it further. I spoke to a specialist over the phone who suggested I met with my local adviser, Mark, to find out what options were available to me. Mark was great and arranged to work around my schedule. He was very helpful and friendly, and we got on really well.

"He explained everything clearly, making sure I understood in full. I felt positive about going ahead, but Mark advised me to discuss it further with my family first. I don't have any children so my beneficiaries are my siblings. I let them know that I was considering equity release to help fund some home improvements and they were all very supportive - saying that as long as I was happy, they were happy. What use is money once you've passed away after all?

"When I felt ready to go ahead, Mark found a plan that suited my needs perfectly. The experience was so simple from start to finish and I was shocked at how quick it was. I have been able to make those changes to my home and on top of that I booked myself a holiday to Russia – which I thoroughly enjoyed, and with my hobby being motorcycling, I also purchased a classic motorbike.

"I'd definitely recommend equity release and Key Retirement. I've already sent my neighbour in their direction."

"the experience was so simple from start to finish"

Personal borrowing rates tracker

Fall in equity release rates continues to outpace other products

Average equity release rates fell significantly between July 2016 and January 2017 as competition between providers continued. The number of products available from members of The Council also continued to grow.

A fall of 51 basis points (bps) took the average rate for equity release plans to 5.45%, down from 5.96% in July. This extent of price drop is greater than seen for any other personal borrowing product, with personal loans of up to £10,000 experiencing the second biggest fall over the same period (46bps).

Compared to January 2016, the average equity release rate has fallen by 75bps, compared with 60bps for £10,000 personal loans. Growing competition and innovation mean an increasing number of equity release products now offer rates that are lower than the average five year 95% LTV mortgage (4.58%) or standard variable rate (4.23%). Falling rates have been accompanied by a growing range of product features and flexibilities on the market, helping advisers to identify solutions for consumers that are specifically matched to a range of individual needs.

Unlike residential mortgages, lifetime mortgages recognised by The Council continue to provide customers with a guaranteed 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.

Average product rates (%)	Jan-15	Jan-16	Jul-16	Jan-17	Six month change	Annual change
Equity release	6.49	6.20	5.96	5.45	-0.51	-0.75
Overdrafts	19.67	19.67	19.68	19.70	0.02	0.03
Credit cards	17.85	17.96	17.94	17.96	0.02	0
Personal loans (£5k)	8.98	9.11	9.27	9.50	0.23	0.39
5 year fixed rate mortgage - 95% LTV	5.06	4.73	4.65	4.58	-0.07	-0.15
SVR mortgages	4.56	4.56	4.52	4.23	-0.29	-0.33
Personal loans (£10k)	4.80	4.29	4.15	3.69	-0.46	-0.60
2 year fixed rate mortgage - 95% LTV	4.74	3.93	3.86	3.60	-0.26	-0.33
10 year fixed rate mortgage - 75% LTV	3.95	3.27	3.05	2.98	-0.07	-0.29
2 year variable rate mortgage - 90% LTV	N/A	2.67	2.61	2.40	-0.21	-0.27
Lifetime tracker mortgages	2.88	2.57	2.57	2.29	-0.28	-0.28
5 year fixed rate mortgage - 75% LTV	5.06	2.73	2.52	2.23	-0.29	-0.5
3 year fixed rate mortgage - 75% LTV	3.09	2.18	2.08	1.74	-0.34	-0.44
2 year variable rate mortgage - 75% LTV	1.60	1.68	1.72	1.48	-0.24	-0.20
2 year fixed rate mortgage - 75% LTV	2.01	1.90	1.72	1.44	-0.28	-0.46

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.

About the Equity Release Council

www.equityreleasecouncil.com

The Equity Release Council is the industry body for the equity release sector, which represents over 500 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 marked the 25th anniversary since the first industry Standards were created for equity release in 1991. Since then, more than 380,000 consumers have taken out an equity release plan from Council members, drawing on over £19bn 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 **500 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, more than **380,000 people have taken out an equity release plan** from a Council member, drawing on **over £19bn of housing wealth**. Growing consumer demand means 37% of lending and 28% of new plans have been advanced in the last five years (2012-2016).
- 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 Spring 2017 using data from new plans taken out in the second half of 2016, alongside historic data tracked since the beginning of 2014. 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**

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EQUITY RELEASE COUNCIL
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