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EQUITY RELEASE PRODUCT TRENDS REVEALED AS INDUSTRY RESPONDS TO CONSUMER DEMAND

Equity Release Council publishes Autumn 2019 *Equity Release Market Report*

- **Equity release customers see unprecedented levels of product choice and flexibility in the first six months of 2019**
- **Top growth areas over the past year include options for sheltered or age-restricted accommodation, making regular interest payments, downsizing protection, inheritance guarantees and drawdown facilities**
- **Average equity release rates fell below 5% for the first time to 4.91% in July 2019**
- **The market has continued to develop and mature in recent years, energised by strong competition in the market and underpinned by robust consumer safeguards**

Equity release customers saw unprecedented levels of product choice and flexibility in the first six months of 2019, according to the **Equity Release Council's Autumn 2019 Market Report[1].** This comes as a total of £1.85bn in housing wealth was unlocked in H1 2019 by homeowners aged 55+ to support their later life financial planning.

In a sign that the industry continues to respond to consumer demand for more flexibility and choice, the range of product options increased two-fold compared to this time last year to almost 300 options.

Energised by strong competition in the market and consumer demand, there has been continued growth across all product features – underpinned by Equity Release Council standards guaranteeing three levels of protection including product safeguards, regulated financial advice and independent legal advice.

The top growth areas over the last year include options for sheltered or age-restricted accommodation, interest-serviced (regular interest payments) options, downsizing protection, inheritance guarantees and drawdown facilities.

Table one: Equity release product options and features[2]

	Product options with this feature – August 2018	Product options with this feature – August 2019	Annual change (%)
Sheltered/age restricted accommodation	42	155	269%
Interest-serviced (regular interest payments)	22	81	268%
Downsizing protection	63	129	105%
Inheritance guarantee	51	96	88%
Drawdown facilities	47	88	87%
Voluntary/partial repayments with no early repayment charge	99	178	80%
Fixed early repayment charges	75	116	55%
Regular income payments*	0	16	n/a
Total product options	**126**	**287**	**128%**

Source: product data supplied by Key, August 2019

**Products offering the regular income payments feature were introduced to market January 2019.*

Product options offering the ability to make regular interest payments increased to 81 in August 2019, up 80% since the start of the year and almost quadrupling year-on-year. This feature helps reduce the build-up of interest in the long run. Unlike other retirement mortgage products, customers can pay interest in part or in full without the risk of repossession if payments are no longer affordable, with the option of switching to roll-up at any point.

There has also been a notable annual rise in product options available on sheltered and/or age restricted accommodation (269%), while the range of options offering downsizing protection have doubled. This feature allows customers to downsize and repay their loan without incurring an early repayment charge – a key consideration in later life.

Products offering inheritance guarantees have seen an 88% year-on-year increase. This gives customers the option to ring-fence part of their property's value to leave behind as a guaranteed minimum inheritance.

Average equity release rates fall below 5% for first time

The Market Report also shows the average equity release rate at a record low of 4.91%[3]. Over half (58%) of products offer a rate of 5% or less, while a fifth (21%) of products are priced at 4% or below – with these rates being fixed or capped at a maximum limit for the entire life of the loan.

This growing product range with increasingly competitive rates comes at a time there are an estimated 20.5 million people aged 55+ in the UK, including 1.6 million aged 85+[4], with those who own their home outright aged 67.7[5] on average. This is approaching the typical age that customers take out equity release – averaging 70.3 years for new drawdown plans and 68.0 for new lump sum plans. This comes as over half (51%) of homeowners aged 45+ see money invested in property as part of their financial plans for later life[6].

David Burrowes, Chairman of the Equity Release Council comments: "The equity release market is responding to consumer demand as it continues to evolve and grow. Increased product innovation and flexibilities are helping to meet wide range of financial and social needs, from providing extra retirement income to passing on wealth to younger generations.

"Older homeowners considering equity release have never before had more choice and flexibility to meet their changing needs and their families', with average rates also at record lows. A broader range of products means equity release can play an important part of advisers' toolkit when considering clients' requirements in later life. It's vital that advisers across a host of areas – including pensions and wealth management – can identify when equity release may or may not be suitable based on today's product range and can refer a client for specialist advice where appropriate.

"The market's development has been driven by competition, reinforced by robust consumer protections and product safeguards. As the UK's ageing population continues to grow, making use of housing wealth will be essential to help all generations meet the financial challenges they're facing both today and tomorrow."

- ENDS -

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[1] 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 2019 using data from new plans taken out in the first half of 2019, alongside historic data and external sources as indicated in the report. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms.

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

[2] Equity release product features explained:

Product features explained

- **Regular income** – some lifetime mortgages now provide a regular monthly payment over a fixed period, in place of a larger lump sum, for example to boost income received from pensions and other sources

- **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.

- **Repayment flexibilities for significant life events and changes of circumstance** – a number of lenders have now introduced a feature for joint borrowers whereby, if either one passes away or moves permanently into long term care, the borrower/s can repay the loan within three years if they wish to do so without any early repayment charge.

Lifetime mortgage rates reflect the additional features and protections offered above and beyond typical homeowner mortgages. For products offered by Council members, 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.

[3] as of July 2019
[4] Office for National Statistics, Estimates of the population of the UK, England and Wales, Scotland and Northern Ireland, June 2019
[5] Ministry of Housing, Communities and Local Government, English Housing Survey data on homeownership for 2017/18, 2016/17
[6] Equity Release Council report – Beyond bricks and mortar: the changing role of property in later life financial plans – supported by Key

About the Equity Release Council

www.equityreleasecouncil.com
The Equity Release Council is the representative trade body for the equity release sector with over 300 member firms and 1,000 individuals registered, including providers, regulated financial advisers, solicitors, surveyors and other professionals.

It leads a consumer-focused UK based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products. Since 1991, over 480,000 homeowners have accessed over £28bn of housing wealth via Council members to support their finances.

The Council also works with government, voluntary and public sectors, and regulatory, consumer and professional bodies to inform and influence debate about the use of housing wealth in later life and retirement planning.