Equity Release Council

Autumn 2020 Market Report

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Foreword

The first six months of 2020 brought unprecedented challenges to households and businesses globally, as the ongoing coronavirus pandemic affected all areas of the UK economy and society – with the equity release market being no exception.

Pent-up demand following an uncertain 2019 led to strong customer activity in the first quarter of 2020. However, the impact of Covid-19 and the UK lockdown dominated Q2 when activity fell by a third from Q1, both in terms of lending and new customer numbers, before showing initial signs of recovery in June.

Throughout this turbulent period, the Equity Release Council and its members have sought to maintain market access and protections for consumers who need to draw on the wealth tied up in their homes. The careful use of measures such as desktop property valuations and remote legal advice has helped to navigate the initial lockdown period enabling consumers to continue to access an important source of later life finance.

In addition, we have liaised closely with the Bank of England and regulators during this period to inform understanding of the impact the pandemic has had on market supply and demand. As this report shows, the market continues to show resilience and provide a wide range of product options at historically low interest rates. In challenging times, this is testament to how the sector, once considered niche, is evolving to meet wider consumer needs.

At the same time, it is more important than ever to remember that releasing equity is a long-term commitment. It is one that calls for careful consideration, supported by personalised advice, to ensure it is appropriate for individual circumstances both now and in the future.

This point was prominent among the Financial Conduct Authority's (FCA) recent report on the advice and sale of equity release which highlighted that while equity release is "working well for many consumers", more needs to be done to ensure this is a consistently universal experience.

Following the broad consultation and evolution of our Standards last year to be outcomes-focused – which we believe provide the highest level of consumer protection of any later life property-based loan – the Council is dedicated to leading this effort. We continue to progress new initiatives to help establish and embed best practice to ensure good outcomes, and complement the greater personalisation of advice, with resources and tools such as our recently updated Checklist for Advisers.

Looking ahead, the mounting issues facing consumers in later life show little signs of easing – and we recognise equity release forms only one part of the solution. As people seek to maintain living standards for increasingly long retirements, a joined-up approach to financial planning, assessing all accumulated assets and across multiple products is needed now more than ever.

We are committed to working with members, industry, government, regulators and wider stakeholders to make this a reality and help deliver the best possible outcomes for consumers.

David Burrowes,
Chairman of the Equity Release Council

Contents and key findings

Market context (p. 4)

- 37p of property wealth was unlocked for every £1 of flexible pension payments during H1 2020
- Over a third (37%) of people aged 65+ are worried they will not be able to maintain living standards in retirement
- 39% of over 65s feel that property would make the most of their money in retirement – more so than pensions, stocks, savings accounts, ISAs or premium bonds – as do 47% of those aged 35-44

Overall customer activity (p. 6)

- New equity release plans agreed in H1 2020 dipped 21% from H2 2019 and 15% year-on-year as customers assessed the impact of Covid-19 before making a financial commitment
- Pre-lockdown activity meant that H1 performance remained above the levels seen in H1 2017

Product features and pricing (p. 7)

- Product options reached 379 in July 2020, down 5% from six months earlier but up 29% year-on-year
- Prominent features include downsizing protection, full or partial interest payments, and voluntary or partial loan repayments with no early repayment charges
- Average interest rates reached a record low of 4.11% in July 2020, down from 4.48% only six months earlier
- Half of products offer a rate of 4% or less, while rates of 6%+ now make up only 3% of the market

New customer trends (p. 11)

- Jointly held plans continue to make up the majority of new customer activity
- The percentage of single drawdown plans taken out by women rose from 27% in H1 2019 to 29% in H1 2020
- Average house prices rose for both new drawdown and lump sum lifetime mortgage customers – keeping loan sizes in proportion

Returning customer trends (p. 13)

- New and returning drawdown activity was similarly impacted by the pandemic
- Further advance activity dipped 15% year-on-year as fewer people sought extensions on existing loans

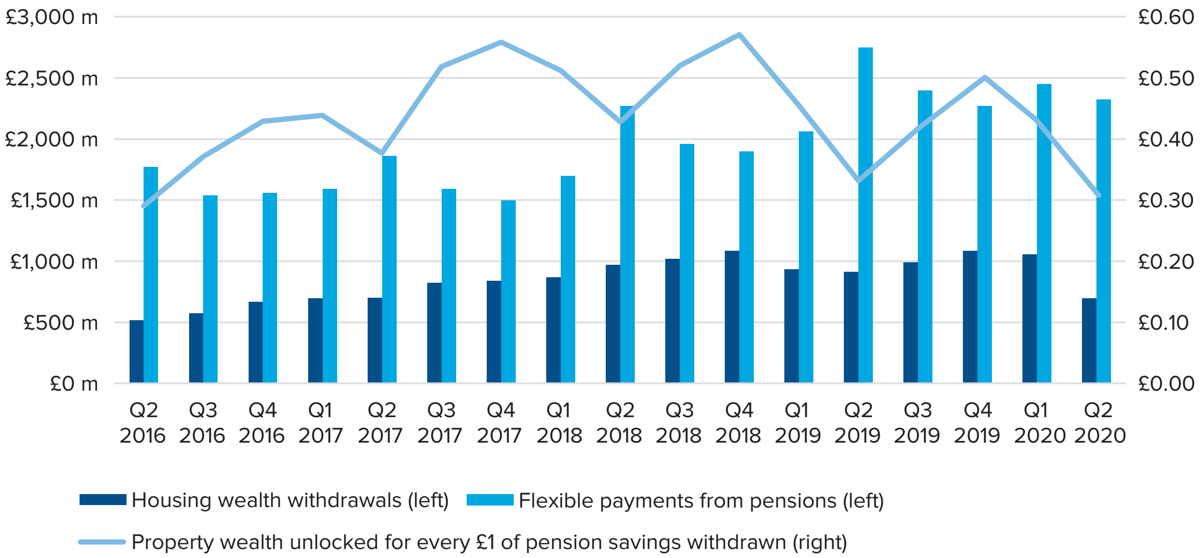
Market context

The later life funding mix

The second quarter of 2020 saw consumers limit their withdrawals of both property wealth and pension savings in later life as the ongoing global pandemic prompted caution while the country went into lockdown. Property wealth withdrawals via equity release products in Q2 were the lowest seen since Q1 2017, while the usual spike in flexible pension payments was also absent as activity dipped.

Overall, H1 2020 saw 37p of property wealth unlocked for every £1 of flexible pension payments – broadly consistent with the 38p seen a year earlier, but down from 46p in H1 2018. This has largely been driven by an increase in flexible pension payments compared to equity release activity.

Comparing property wealth withdrawals and flexible pension payments



Source: HMRC flexible payments from pensions, Equity Release Council property wealth withdrawals

However, research from the Council and Key, The Pension / Property Paradox[1], suggests many older homeowners are set to reach later life with insufficient retirement income to meet their expectations. Data from the Office for National Statistics (ONS) also reinforces concerns over the potential funding shortfall facing older consumers, as more than one in three (37%) people aged 65+ are worried they will not be able to maintain their living standards in retirement.[2]

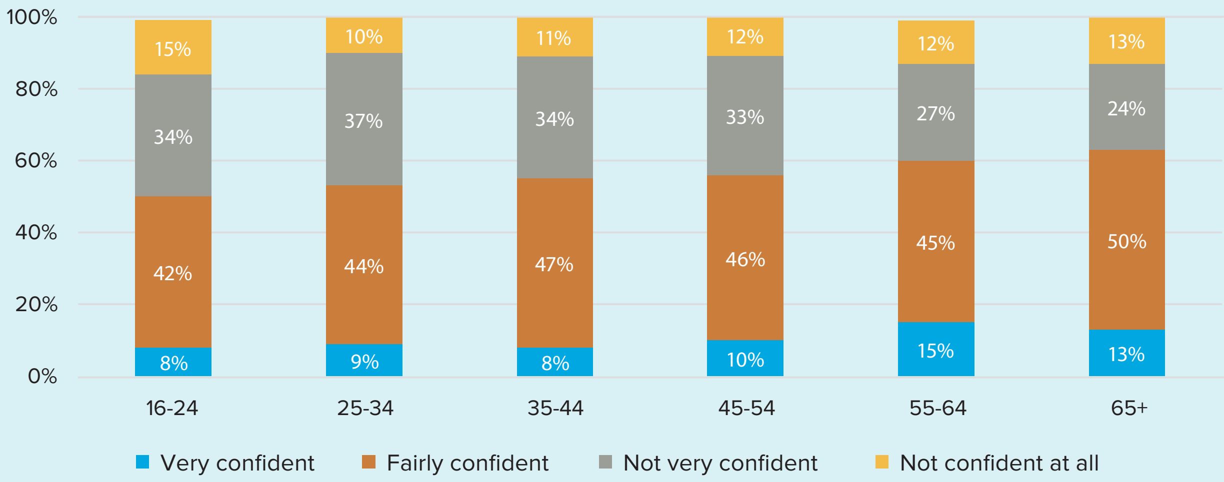
Looking beyond pension wealth to fund retirement

This lack of confidence among the UK's ageing population highlights the continuing need to look beyond pension wealth as the sole means of funding retirement and consider all available assets and sources of wealth to meet people's financial requirements.

[1] Equity Release Council and Key, The Pension / Property Paradox: moving beyond tunnel vision in retirement planning, March 2020

[2] ONS: Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, pensions and financial situation, April 2018 to March 2020

Confidence in standard of living after retirement by age (%)

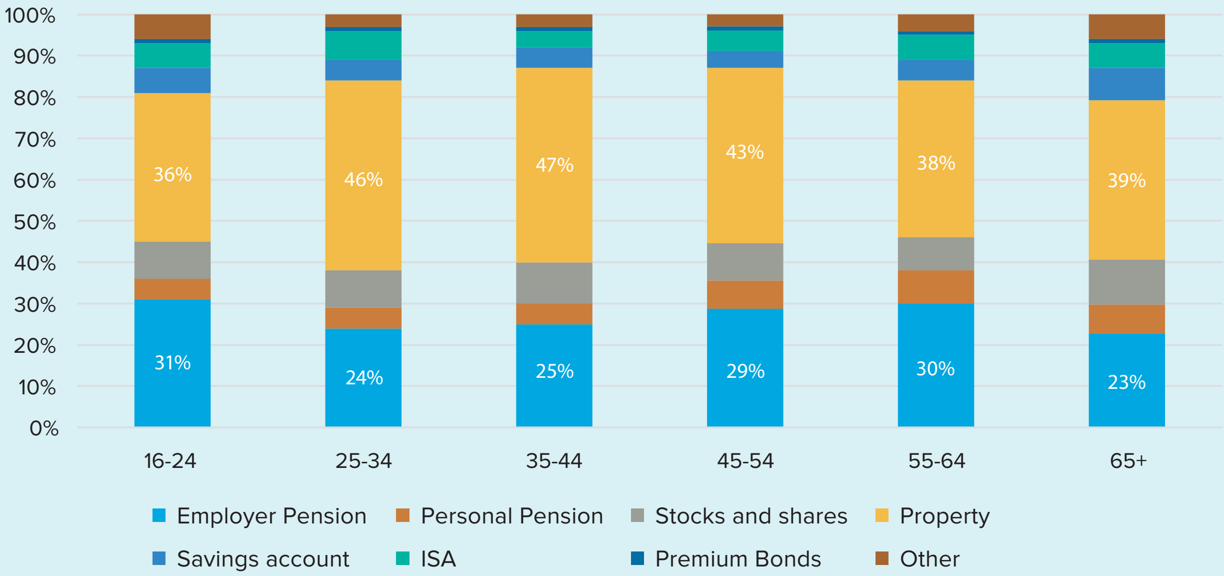


Source: ONS Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, pensions and financial situation, April 2018 to March 2020

The latest ONS data shows that across all age groups, while employer pensions remain a well-established source of retirement income, there is a view that property would make the most of their money in retirement – more so than pensions, stocks, savings accounts, ISAs or premium bonds.

This belief is not limited to the baby boomers (aged 65+) who have benefitted from rising house prices in recent decades, with more than a third (39%) believing property would make the most of their money in retirement. It also includes 47% of those aged 35-44, which highlights the likely long-term demand for ways to safely access wealth tied up in bricks and mortar during later life[3].

What would make the most of your money in retirement, by age (%)



Source: ONS Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, pensions and financial situation, April 2018.

[3]ONS: Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, pensions and financial situation, April 2018 to March 2020

Overall customer activity

Customer numbers pull back as pandemic is felt across the market

After a steady performance in 2019, a busy start to the year for the equity release market was quickly put on pause as lockdown measures were implemented across the UK to help limit the spread of coronavirus.

While Q1 saw 11,079 new plans agreed and 21,884 customers served in total – including returning customers – these measures fell to 7,341 and 13,617 respectively in Q2. Careful steps were taken by providers and advisers to ensure the market remained open throughout the lockdown, with advice and valuations adapting to social distancing guidelines and applications carefully vetted.

Overall, the first half of 2020 saw a 14% drop in customer activity from the same period last year, and a 15% drop in new plans agreed. A total of 35,501 customers were served between January and June, unlocking £1.76bn of property wealth in total – down from 41,263 customers accessing £1.85bn of property wealth during in the same period in 2019.

However, pre-lockdown activity meant these H1 figures remained above the levels seen in H1 2017 – demonstrating how the market has become a more established part of the later life finance landscape in the intervening years.

Trends in equity release customer numbers

	H1 2017	H1 2018	H1 2019	H1 2020	One-year change	Two-year change	Three-year change
All activity	31,158	38,912	41,263	35,501	-14%	-9%	14%
New plans	16,805	21,490	21,585	18,420	-15%	-14%	10%
Returning drawdown*	12,585	15,709	17,725	15,413	-13%	-2%	22%
Further advances	1,768	1,713	1,953	1,668	-15%	-3%	-6%

While average plan sizes among new customers were slightly higher in H1 2020 for both drawdown and lump sum lifetime mortgages, this was balanced by customers typically having higher average house prices – keeping loan sizes in proportion to the amount of equity available. Fewer customers sought further advances in H1 2020 and those who did typically withdrew slightly smaller amounts than in the previous six months.

Trends in average amounts of property wealth accessed

	H1 2018	H1 2019	H2 2019	H1 2020	Six-month change	One-year change
New lump sum lifetime mortgages	£96,207	£95,857	£98,499	£101,427	3%	6%
Further advances on lump sum lifetime mortgages	£20,403	£21,477	£23,717	£23,251	-2%	8%
New drawdown lifetime mortgages - initial lending	£64,184	£62,800	£65,091	£68,536	5%	9%
New drawdown lifetime mortgages - reserves	£39,116	£36,473	£37,043	£38,545	4%	6%
Instalments taken by returning drawdown customers	£11,279	£11,310	£11,117	£12,120	9%	7%
Further advances on drawdown lifetime mortgages - initial lending	£22,093	£16,659	£19,526	£19,115	-2%	15%
Further advances on drawdown lifetime mortgages - reserves	£7,580	£6,349	£7,881	£5,460	31%	-14%
New home reversion plans	£180,000	£61,355	£92,426	£39,934	-57%	-35%
Further advances on home reversion plans	£22,189	£26,765	£31,447	£28,293	-10%	6%

Product features

Product options nearly double over 18 months

Although product choice was significantly improved from the previous year, up 29% from July 2019 and by 88% since the start of 2019, the market saw a 5% reduction in products available to consumers from 401 to 379 between January and July 2020. This still historically high level of choice is driven by greater competition and continuing product innovation.

Equity release product option numbers

Jan-19	Jul-19	Jan-20	Jul-20	Six-month change	One-year change	18-month change
202	294	401	379	-5%	29%	88%

Source: Moneyfacts Plc.

Please note: Figures include all equity release products listed by Moneyfacts Plc that meet Equity Release Council standards.

Alongside the long-term growth in product options, an increasing range of features have been established in the market – providing additional flexibilities to suit a range of individual customer circumstances in later life.

Notably, over half (55%) of products allow downsizing protection so that the loan can be repaid with no early repayment charge if a customer chooses to downsize in the future. A third (35%) of products enable customers to make full or partial interest repayments, while over half (56%) allow customers to make repayments on the loan itself without incurring an early repayment charge – reducing the potential total cost over time.

Equity release product features

60% of products are available to customers living in sheltered or age-restricted accommodation	**35%** of products allow customers to make regular full or partial interest payments
56% of products allow voluntary or partial repayments of capital with no early repayment charge	**55%** of products enable downsizing repayment options, so the loan can be repaid with no early repayment charge if the customer opts to downsize in future
39% of products offer fixed early repayment charges	**56%** of products offer drawdown facilities
14% of products offer an inheritance guarantee, to ringfence part of the property's value as a minimum protected amount to leave behind	**3%** of products allow customers to receive regular income payments

Source: product data supplied by Key, August 2020

Please note: At the end of 2019, Key launched a new advice delivery platform which alters how product data is collated and provides a more in-depth look at product specifics and variants. As such this year's figures are slightly different compared to last year's figures due to the use of this new system. Any queries please get in touch with Key's Press Office.

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.

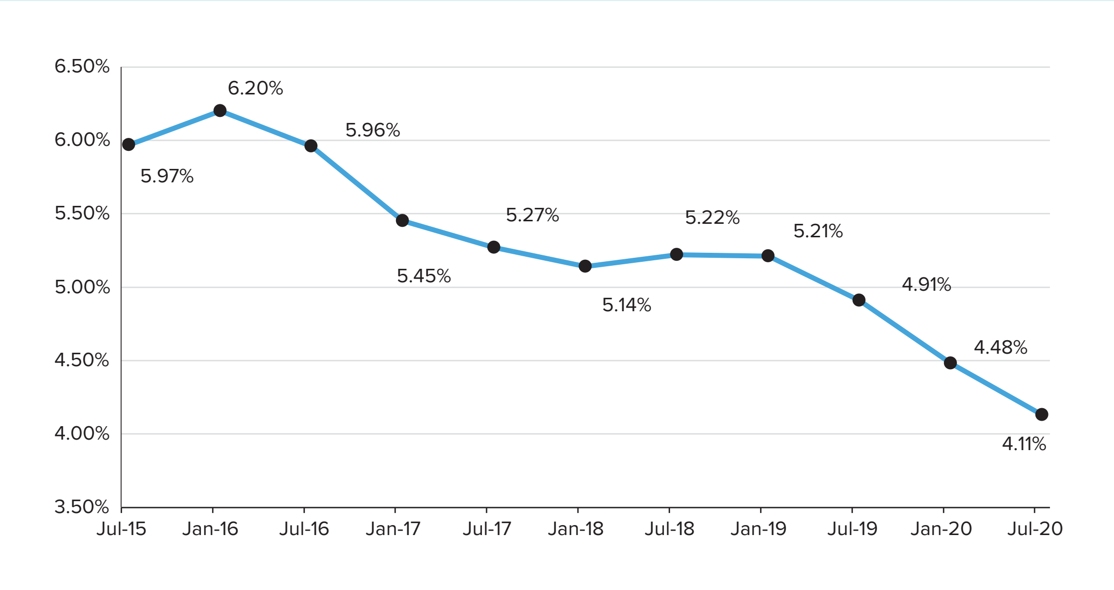
Lifetime mortgage rates reflect the additional features and protections offered above and beyond typical homeowner mortgages. For products offered by Council members, this involves a guaranteed fixed or capped rate of interest for an indefinite term until the plan is repaid, typically when the customer 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.

Product pricing

Rates reach record lows, with half of products now priced below 4%

Recent months have continued the trend of falling equity release rates, with the average reaching a record low of 4.11% in July 2020. This is a reduction of over a third of a percentage point (37 basis points) from 4.48% only six months earlier in January 2020.

Average equity release interest rates, July 2015 to July 2020



Source: Moneyfacts Group plc

The breakdown of product pricing also shows a greater proportion of products offering rates of 4% or lower, making up half of all products on the market (50%) compared to just 7% of products 18 months ago in January 2019. Products offering rates below 3% now make up a fifth (19%) of products.

Rates above 6%, which were the norm only four years ago and made up a quarter (25%) of rates on the market in January 2019, now make up only 3% of products

Percentage of equity release products at different price bands

Product pricing	Jan 2019	July 2019	Jan 2020	July 2020
4.00% and lower	7%	21%	42%	50%
4.01% to 5.00%	40%	37%	28%	23%
5.01% to 6.00%	28%	23%	14%	23%
6.01% and above	25%	19%	15%	3%

Source, Moneyfacts Group plc. Please note: figures may not add up to 100% due to rounding.

Equity release rates fall furthest year-on-year

Looking at interest rate trends more broadly across personal borrowing products, equity release rates have improved the most over both a one-year and two-year timeframe. This outstrips the falls in fixed rate mortgages of varying LTVs as well as £10,000 personal loans and contrasts with rising rates for overdrafts and credit cards.

Personal borrowing rates tracker

Average product rates (%)	Jul 2018	Jan 2019	Jul 2019	Jan 2020	Jul 2020	6 month change	Annual change	2 year change
Overdrafts*	19.68	19.70	18.58	21.09	31.63	10.54	13.05	11.95
Credit cards*	18.35	18.67	20.01	20.77	20.54	-0.23	0.53	2.19
Personal loans (£5k)	7.76	7.98	7.82	7.70	7.80	0.10	-0.02	0.04
Equity release	**5.22**	**5.21**	**4.91**	**4.48**	**4.11**	**-0.37**	**-0.80**	**-1.11**
5 year fixed rate mortgage - 95% LTV	4.29	3.64	3.39	3.34	4.11	0.77	0.72	-0.18
Revert-to-rate mortgage	4.10	4.48	4.29	4.27	3.66	-0.61	-0.63	-0.44
Personal loans (£10k)	3.76	3.73	3.61	3.58	3.48	-0.10	-0.13	-0.28
2 year fixed rate mortgage - 95% LTV	3.78	3.04	2.96	3.02	2.81	-0.21	-0.15	-0.97
10 year fixed rate mortgage - 75% LTV	2.76	2.66	2.57	2.42	2.32	-0.10	-0.25	-0.44
5 year fixed rate mortgage - 75% LTV	2.04	2.05	1.93	1.68	1.70	0.02	-0.23	-0.34
3 year fixed rate mortgage - 75% LTV	1.82	1.80	1.74	1.57	1.71	0.14	-0.03	-0.11
2 year fixed rate mortgage - 75% LTV	1.75	1.72	1.61	1.41	1.45	0.04	-0.16	-0.30

*Source: Equity Release Council analysis of data from Moneyfacts Group plc/Bank of England. Rate changes measured in basis points (bps). Average equity release rates exclude products which do not meet the full Council standards. *The Bank of England changed its methodology in March 2019, impacting the change in overdraft and credit card rates from Jan 19 to July 19. In addition, SVRs are now referred to as revert-to-rate mortgages.*

New customer trends

Jointly held plans continue to drive new customer activity

The average age of new customers using equity release to access their property wealth in H1 2020 was broadly consistent with previous periods. The average age of a new drawdown lifetime mortgage customer dipped below 70 for the first time since H1 2018, while the average age of a new lump sum lifetime mortgage customer increased slightly to the highest since H2 2017.

Average age of new customers

	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020
New drawdown plans	71.5	70.9	71.2	71.7	71.5	69.8	69.9	70.3	70.3	70.6	69.8
New lump sum plans	67.7	67.2	67.7	68.2	68.0	68.6	68.1	68.0	68.0	68.0	68.5

Jointly held plans continued to account for the majority of new customer activity, making up 58% of all new drawdown plans and 59% of new lump sum plans. The percentage of new drawdown plans taken out by women also increased slightly year-on-year from 27% in H1 2019 to 29% in H1 2020.

Trends in new plans agreed

	Share of new plans agreed - H1 2019			Share of new plans agreed - H1 2020		
	Jointly held plans	Single plans-male	Single plans-female	Jointly held plans	Single plans-male	Single plans-female
New drawdown plans	59%	14%	27%	58%	14%	29%
New lump sum plans	55%	18%	27%	59%	16%	25%

With fewer customers active in the market, average house prices among new customers increased from the previous six months, rising 6% among drawdown customers to £378,749 and 10% among lump sum customers to £346,157. Both figures are the highest seen in the last five years and compare to an average UK house price of £234,612 – highlighting the above-average property wealth among many older homeowners[4].

Average house price of new customers.

	H1 2015	H1 2016	H1 2017	H1 2018	H1 2019	H2 2019	H1 2020
New drawdown customers	£301,971	£319,600	£294,108	£353,383	£348,466	£358,439	£378,749
New lump sum customers	£237,881	£282,668	£284,664	£312,301	£313,028	£315,451	£346,157

[4] ONS House Price Index, April 2020

The last 12 months have seen a slight uptick in the average maximum percentage of property wealth that can be accessed by equity release customers at different stages of later life. For example, those aged 60 cantypically access up to 26.3% of the value of their home, up from 23.5% a year earlier, while those aged 90 can access 50.7% compared with 48.0% in July 2019.

Average maximum loan to value (LTV) by age

	55	60	65	70	75	80	85	90
Jul 2020	20.2%	26.3%	31.5%	36.9%	42.2%	46.9%	49.5%	50.7%
Jan 2020	18.8%	25.3%	30.4%	35.7%	40.9%	45.9%	46.9%	49.0%
Jul 2019	17.1%	23.5%	28.6%	33.8%	38.9%	44.1%	461%	48.0%

Source: Moneyfacts Group plc

While the average new customer is aged around 70 – and might therefore be able to unlock up to 36.9% of their property wealth, depending on their personal circumstances, property value and product choice – the average plan size is typically more conservative.

The average loan to value (LTV) on a new drawdown lifetime mortgage rose to 28.3% in H1 2020, up from 27.9% in H2 2019 but remained lower than a year earlier. For new lump sum lifetime mortgages, the average LTV dipped to 29.3% from 31.2% over the same period.

Average loan-to-value of new equity release customers

	New drawdown lifetime mortgages			New lump sum lifetime mortgages		
	H1 2019	H2 2019	H1 2020	H1 2019	H2 2019	H1 2020
Average house price	£348,466	£358,439	£378,749	£313,028	£315,451	£346,157
Average initial advance	£62,800	£65,091	£68,536	£95,857	£98,499	£101,427
Average extra reserves	£36,473	£37,043	£38,545	n/a	n/a	n/a
Average LTV	28.5% (18.0% + 10.5%)	27.9% (18.2% + 9.7%)	28.3% (18.1% + 10.2%)	30.6%	31.2%	29.3%

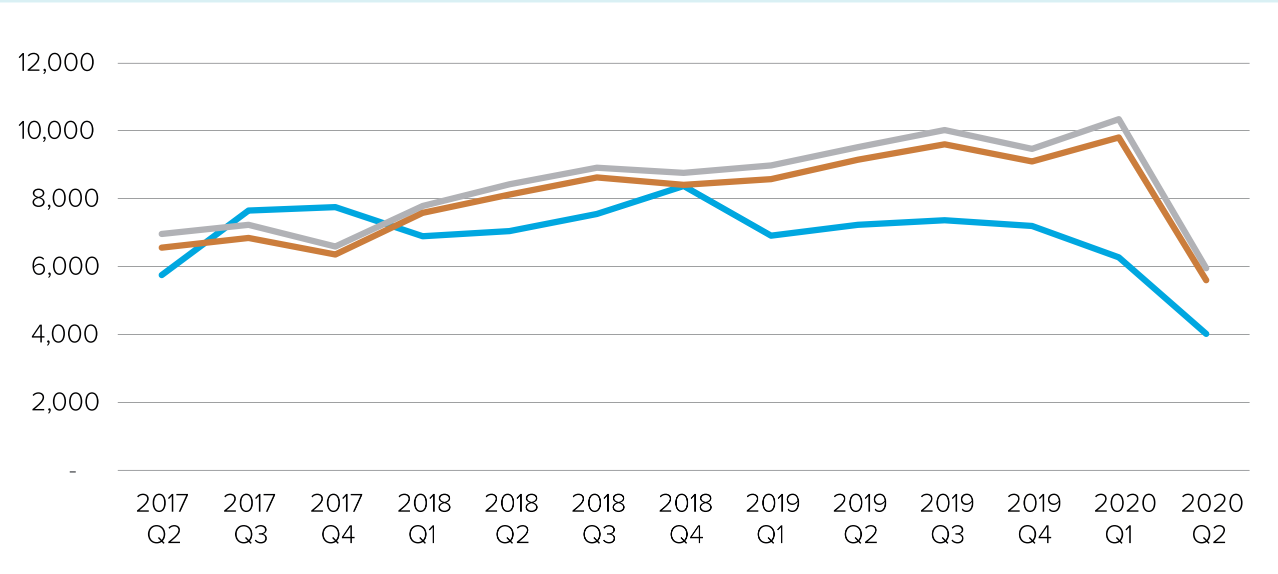
Returning customer trends

Returning drawdowns and further advances paused

New and returning customer drawdown activity has followed a similar trajectory over the last three years, with increasing activity among returning customers reflecting the fact that more people have taken out these plans in recent years. As economic uncertainty returned and lockdown took hold, both of these customer segments were similarly impacted in H1 2020 and saw activity drop off.

Returning drawdown customers made up 43% of all customers served in H1 2020, slightly up from 42% in H2 2019. However, the 15,413 returning drawdown customers were down 13% year-on-year to the lowest number seen since H2 2017 (13,209) as people paused to assess the impact of Covid-19 before making use of agreed reserves.

Trends in new and returning drawdown activity



Number of new customers
Number of returning customers
Number of drawdowns taken by returning customers

Further advance activity in H1 2020 fell 15% year-on-year, in line with total new plans agreed, as customers refrained from seeking extra borrowing on top of existing loans. The 1,668 further advances agreed during the first six months of the year was the lowest number seen for four years, since H1 2016.

About the Equity Release Council

www.equityreleasecouncil.com

The Equity Release Council is the representative trade body for the UK equity release sector with over 500 member firms and nearly 1,300 individuals registered, including providers, funders, 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 500,000 homeowners have accessed over £30bn of property 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.

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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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 2020 using data from new plans taken out in the first half of 2020, alongside historic data and external sources as indicated. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms.

**Data is collected on a quarterly basis so numbers may include some returning drawdown customers twice if they made multiple withdrawals in consecutive quarters*

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

The Equity Release Council is a company limited by guarantee and registered in England No. 2884568. The company is not authorised under the Financial Services and Markets Act 2000 and is therefore unable to offer investment advice.

CHECK THAT YOUR CHOSEN PLAN WILL MEET YOUR NEEDS IF YOU WANT TO MOVE OR SELL YOUR HOME OR IF YOU WANT YOUR FAMILY TO INHERIT IT. ALWAYS SEEK QUALIFIED FINANCIAL ADVICE.

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