Equity Release Council

Market report

Spring 2021

Foreword

The Covid-19 pandemic has been a reality for over a year now and continues to have an impact on households and businesses across the UK. While annual equity release market activity for 2020 remained below levels seen in 2018 and 2019[1], customer numbers and lending activity increased in the second half of the year as consumer confidence and business operations showed resilience in the face of uncertainty.

2020 was a watershed year in many ways, and our industry responded with rigour and care to ensure an important source of later life finance remained available to those customers who needed it, within safe boundaries.

Looking ahead, we will be managing the impacts of the pandemic for years to come as it exacerbates the financial challenges people face to maintain living standards in later life. Our recent research with Key found that over a third of over-55 homeowners are now worried about running out of money in retirement[2].

In a similar vein, the FCA's latest Financial Lives Survey[3] uncovered many UK adults have experienced a negative financial impact from the pandemic with a greater number of vulnerable consumers. Against this backdrop, robust and consistent consumer safeguards have never been more important – and we have been unrelenting in our focus in this area. We launched our Good Practice Guide for Advisers last year alongside an enhanced Checklist for Advisers and have followed up in 2021 by publishing our Competency Framework – all designed to uphold best practice and support consistent advice standards and good consumer outcomes.

Despite the challenging environment, the second half of 2020 saw equity release product options rise to record highs, with over 100 products added in six months alone. Consumers considering equity release now have almost 500 flexible options to choose from, with a quarter of products now offering rates of 3% or lower[4].

The Council's membership has continued to grow from strength to strength, and we have also grown as an organisation to best serve consumer interests across the whole equity release value chain, with the appointment of our Risk, Policy and Compliance Team and launch of our expert Funders' Forum and Legal Forum.

These initiatives will help to support product innovation and ensure consumer safeguards continue to thrive as the bedrocks of the modern equity release market, which offers flexible finance in later life to thousands of older homeowners across the UK. This year marks the 30th anniversary of the first equity release standards, and we are focused on continued engagement with industry, government, policymakers, regulators and consumer representatives to shape the next stage of the market's evolution.

David Burrowes, Chairman of the Equity Release Council

[1] Equity Release Council: Q4 and FY 2020 equity release market statistic
[2] Equity Release Council: The Pension / Property Paradox: revisiting the retirement confidence gap
[3] Financial Conduct Authority: Financial Lives 2020 survey: the impact of coronavirus
[4] Moneyfacts Plc, January 2021

Executive summary

Market context – page 4

- The total value of UK private property passed £6trillion for the first time on record at the end of 2020 as market activity recovered from the first coronavirus lockdown
- The nation's private property wealth reached a new high of £4.6tn, equivalent to £189,549 for the average UK property owner
- The average loan-to-value of UK property reduced to 24.6%, the lowest level seen since before 2007/8
- Mortgage holders made an unprecedented £5.1bn of overpayments in Q4 2020, but regular repayments remain below pre-pandemic levels as some households rely on mortgage holidays
- Over-55s withdrew 46p of property wealth for every £1 of flexible pension payments in H2 2020, in line with 2019 as property plays an important role in the retirement funding mix.

Overall customer activity – page 6

- The volume of new plans taken out rose 19% during H2 2020, compared to the first six months of the year
- Although new customer activity remained 6% below pre-pandemic levels in H2, it showed signs of underlying market resilience by surpassing 20,000 plans agreed between July and December
- Across the whole of 2020, nearly 73,000 new and returning customers were served, unlocking £3.89 billion of property wealth to support their finances

Product features and pricing – page 7

- The number of equity release products available rose by 100 in the second half of 2020 to reach 488 in total
- Access to retirement interest-only mortgages also improved last year with more than 100 products available for the first time
- Over three fifths of lifetime mortgages now allow voluntary partial capital repayments with no early repayment charge
- The average lifetime mortgage product reached a record low of 3.95%, more than half a percentage point lower than in January 2020
- Nearly three in five (58%) lifetime mortgages now offer rates of 4% or lower, including one in four (26%) priced at 3% or less
- Improving rates over the last five years could reduce a lifetime mortgage customer's interest costs by 35%, before taking into account extra product flexibilities

Customer trends – page 11

- The average age of new customers remained stable in H2 2020 despite the unusual environment
- Jointly held plans contributed to a growing share of new lump sum lifetime mortgage activity – 60% compared with 55% in H1 2019
- Customers in the second half of 2020 had higher average house prices and accessed smaller percentages of their property wealth than in 2019
- Returning drawdown and further advance activity was quieter in H2 2020 than a year earlier, as customers refrained from drawing on additional funds in response to the pandemic
- Average withdrawals of property wealth are largely consistent with previous periods, with drawdown customers reducing extra reserves and taking more funds up-front.

Market context

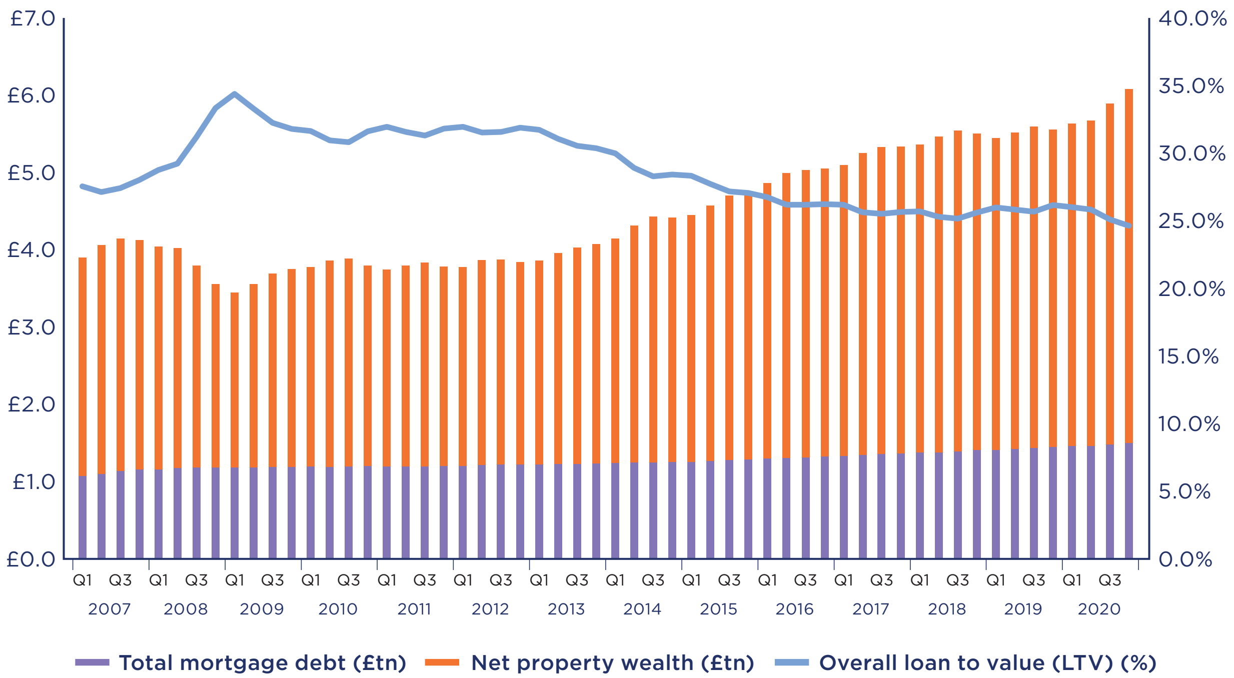
The UK property market staged a recovery in the second half of 2020 after being closed temporarily during the initial Spring lockdown. The stamp duty holiday announced in July exempted all purchases in England and Northern Ireland below £500,000 from taxation, initially until March 2021 but subsequently extended until the end of September, with a lower threshold of £250,000 from the end of June.

Along with the backlog of transactions from lockdown, this new measure supported a busy market for house purchases towards the end of 2020, despite ongoing Covid restrictions. The latest HMRC data suggests 638,820 transactions took place in the second half of last year: more than 50% higher than the 404,400 seen between January and June[5]. Strong consumer demand saw average house prices reach £250,000 across the UK and £500,000 in London in November, according to the Office for National Statistics[6].

As a result, the total value of UK private property passed £6trillion for the first time on record to reach £6.08trillion by the end of Q4 2020. While total mortgage debt also rose to a new high – just short of £1.5 trillion – the impact of rising prices increased owners' property wealth (their remaining equity once mortgage debt is accounted for) to a combined £4.6 trillion.

The trend also reduced the housing market's combined loan-to-value (LTV) to 24.6%, the lowest level since before the 2007/8 financial crisis. On an individual basis, this means the average UK property owner held equity of £189,549 alongside an average loan of £61,951.

UK trends in private property wealth



Source: Equity Release Council, Office for National Statistics

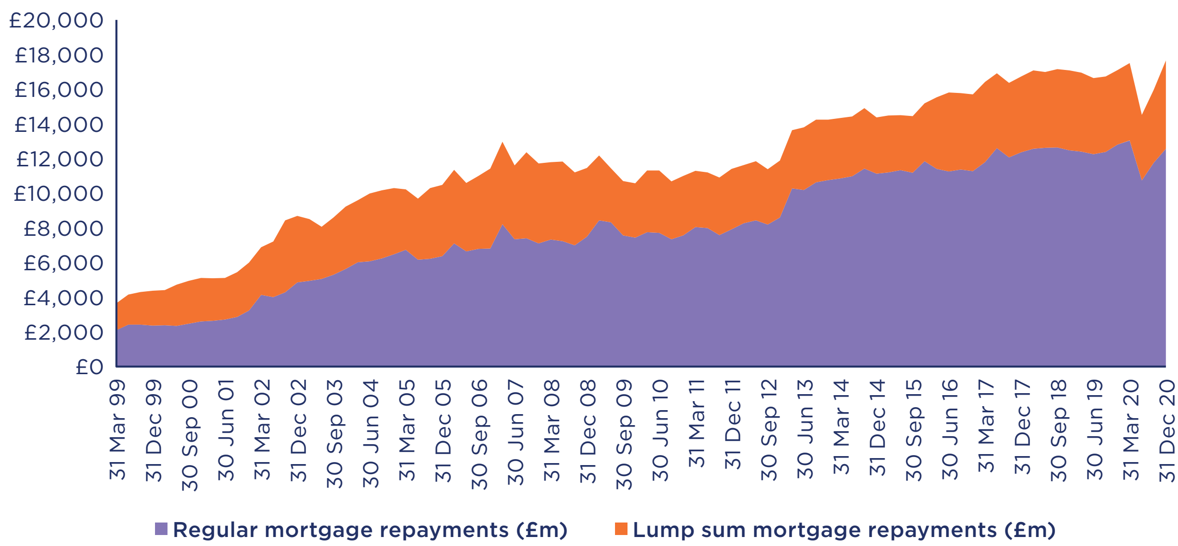
The pandemic response also impacted mortgage debt repayment trends during the second half of 1919. Despite total mortgage debt rising, households paid off £33.6bn of existing debt from July to December, including a record £17.6bn in the final quarter of the year – equivalent to £192m a day.

[5] HMRC, Monthly property transactions completed in the UK with value of £40,000 or above, February 2021
[6] ONS, UK House Price Index: December 2020, February 2021

The data suggests that some households channelled savings made from enforced home-working towards additional mortgage repayments to reduce their outstanding debt. An unprecedented £5.1bn of lump sum overpayments were made in Q4 2020 alone, up 18% year-on-year.

However, in contrast, regular repayments remained 2% lower in the final quarter than they were a year earlier as households who have been negatively impacted by the pandemic use relief measures such as mortgage holidays to defer their repayment obligations.

Trends in regular and lump sum mortgage repayments

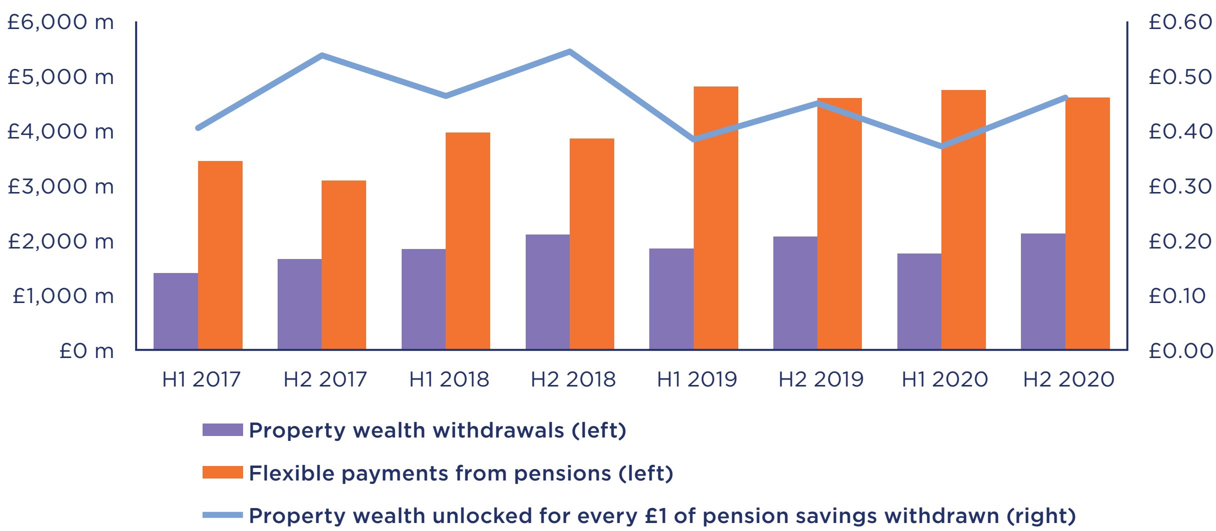


Source: Equity Release Council, Bank of England

While some households have needed to take action to prop up their finances, the Council's analysis suggests this has not disrupted normal patterns when drawing on property wealth in later life.

Households withdrew 46p of property wealth for every £1 of savings accessed via flexible pension payments in H2 2020 as property continued to play an important role in the retirement funding mix. This is broadly consistent with a year earlier (45p – H1 2019). Across the whole of 2020, over-55s unlocked 41p of property wealth for every £1 of pension savings taken out via flexible payments: again, largely consistent with 42p in 2019.

Trends in property wealth withdrawals and flexible pension payments



Source: Equity Release Council, HM Revenue & Customs

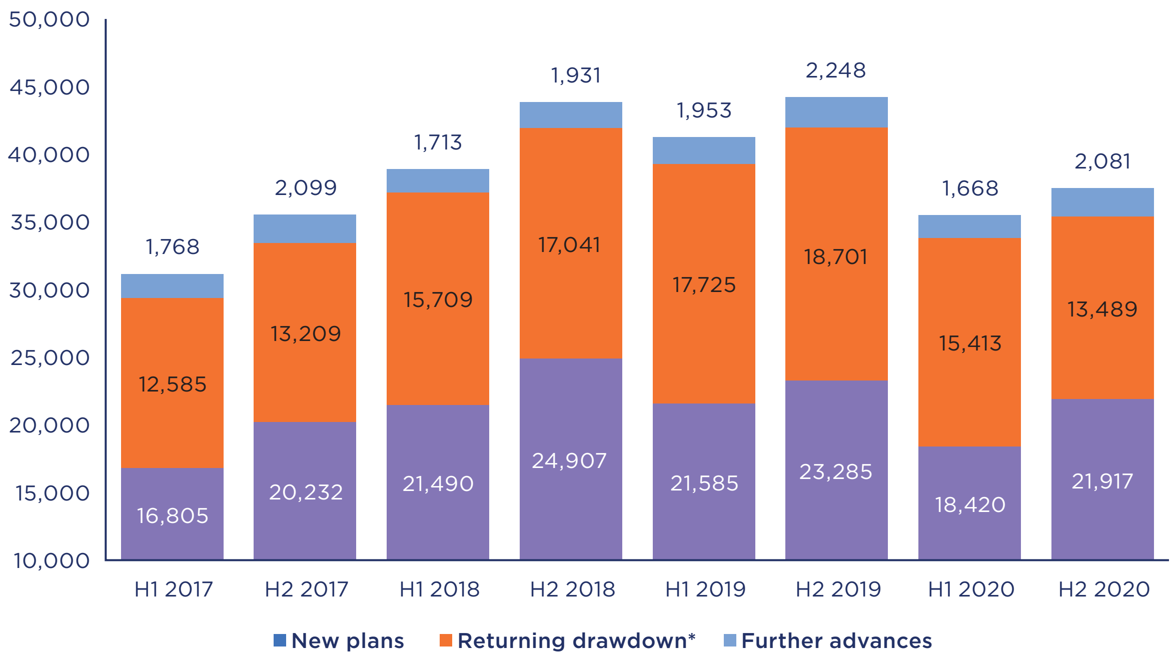
Overall customer activity

Equity release customer numbers recover from pandemic disruption

Customer activity in the equity release market recovered from the troughs of the first lockdown in the second half of 2020, as the industry quickly adjusted to maintain product access amid the pandemic disruption.

The volume of new plans taken out rose 19% during the second six months of the year, up to 21,917 in H2 2020 from 18,420 in H1 2020. While new customer activity remained 6% below pre-pandemic levels from H2 2019 and 2018, it remained some distance above the benchmark of 20,000 first passed in H2 2017, showing the underlying resilience of the market[7].

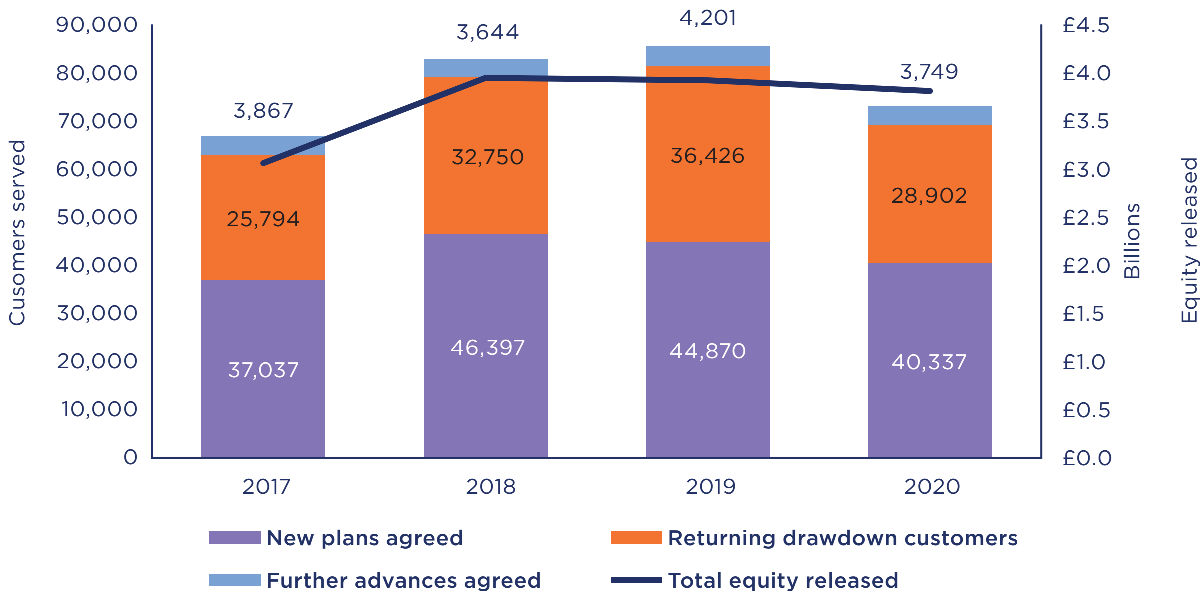
Half-year trends in equity release customer numbers



On an annual basis, the total number of customers served remained higher than the levels seen in 2017, despite the impact of the pandemic slowing activity compared with 2018 and 2019. The market for new plans held up best in the face of economic uncertainty, with the annual total down 10% year-on-year compared with an 11% fall in further advances and a 21% fall in returning drawdown customers. Overall, 72,988 customers collectively accessed £3.89bn of property wealth over the course of the year.

[7] Equity Release Council data

Annual trends in equity release market activity



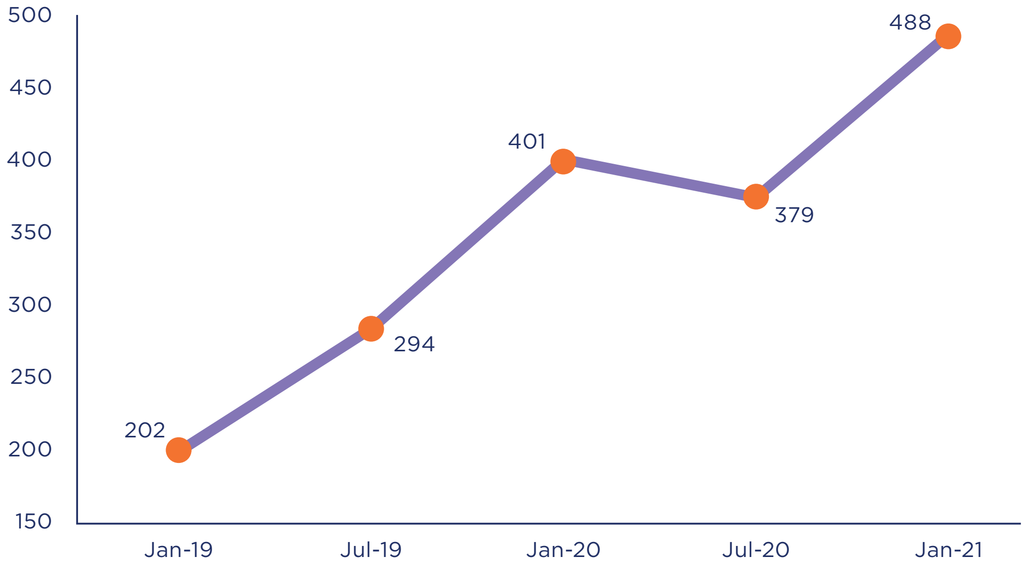
Product features

Number of equity release products rises by over 100 over last six months

The number of products available to over-55s in the equity release market has more than doubled in the last two years. The product range grew by 109 over the second half of 2020, increasing by 29% from 379 in July 2020 to 488 in January 2021. This reflected strong levels of competition and innovation in the sector, with supply only slightly reduced during H1 2020 as the market adjusted to operating in pandemic conditions.

Consumers also benefitted from improving options in the retirement interest-only (RIO) market, where Moneyfacts data shows that 111 products were available in January 2021, compared with 74 a year earlier and just 38 in early 2019.

Number of products available in the equity release market



Source: Moneyfacts Plc, January 2021

The lifetime mortgage product range continues to build on recent developments to provide consumers with choice and flexibility. Over three fifths (64%) of products now allow voluntary capital repayments with no early repayment charge, up from just over a half (54%) in H1 2020.

Equity release product features

48%
of products are potentially available to customers living in sheltered accommodation, subject to individual lender requirements

30%
of products allow customers to make regular full or partial interest payments

64%
of products allow voluntary capital repayments with no early repayment charge

45%
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

56%
of products offer fixed early repayment charges

50%
of products offer drawdown facilities

16%
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, February 2021

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.

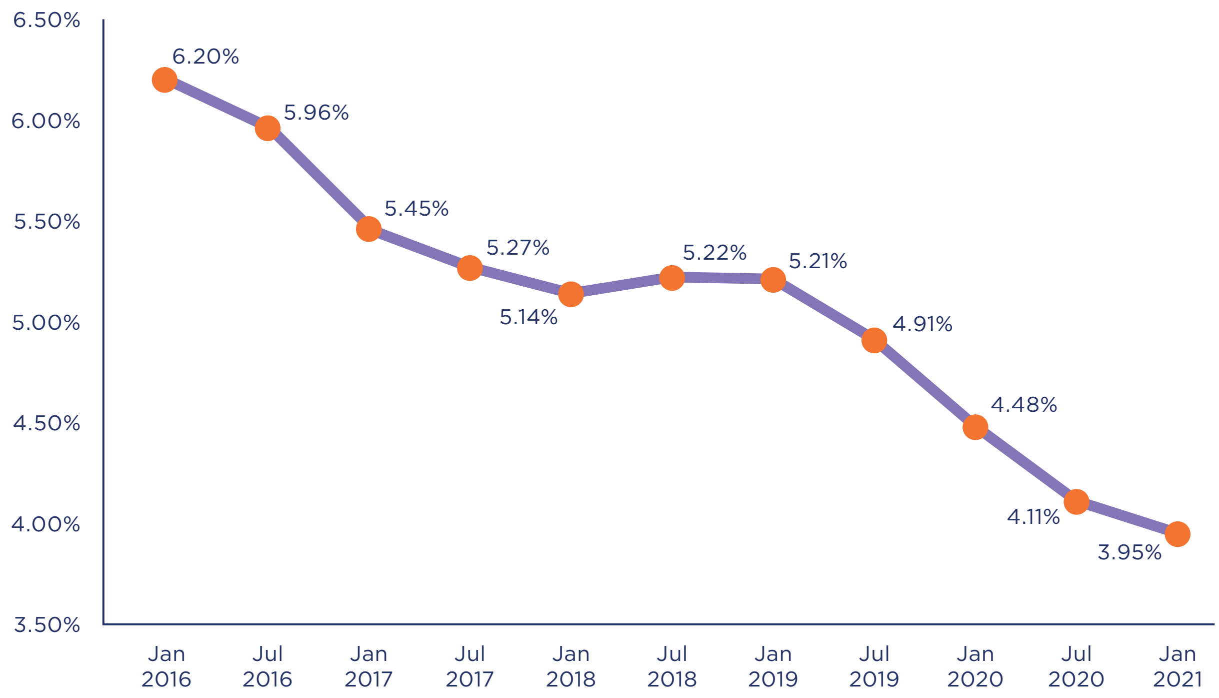
Product pricing

Average rates fall below 4%, with six in ten products at this rate or lower

Lifetime mortgage product rates have continued to decline over the last six months, falling to a record low of 3.95% in January 2021. This is more than half a percentage point lower than the average a year earlier in January 2020.

Over the course of the last five years, rates have fallen by more than two percentage points from 6.20% in January 2016. For a customer taking out a £50,000 plan and making no capital or interest repayments for twenty years, this rate reduction is enough to reduce the interest they will owe by £58,010 or 35%.

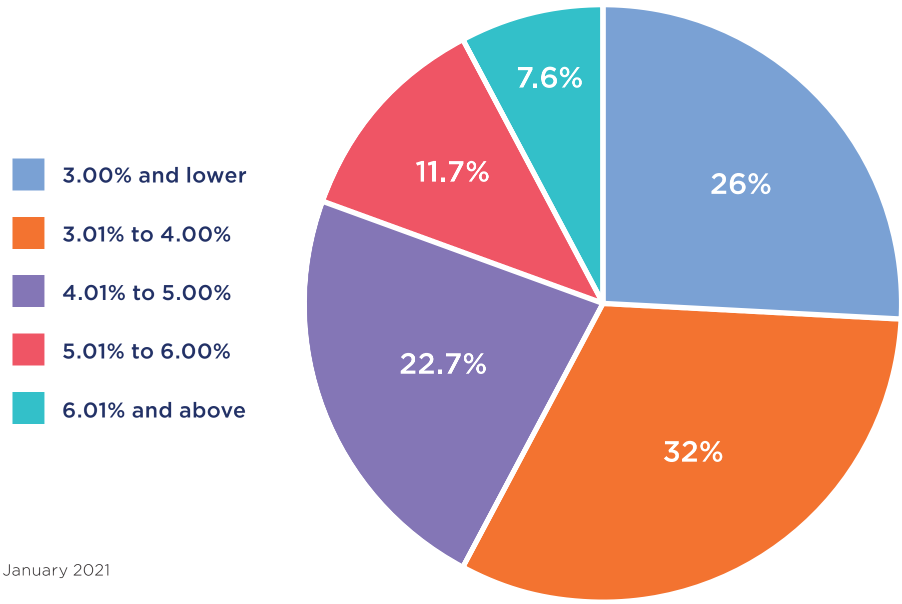
Average lifetime mortgage rates



Source: Moneyfacts Plc, January 2021

In just two years, the proportion of equity release plans that offer an interest rate of 4% or lower has risen from 7% in January 2019 to almost three in five (58%) in January 2021. This includes 26% of products which now carry a rate of 3% or lower, while still offering a full suite of consumer protections, including: a fixed or capped interest rate for life; a no negative equity guarantee; and the right to remain in the property for life with no requirement to make capital or interest payments to avoid the risk of repossession.

Proportion of equity release products at different price bands

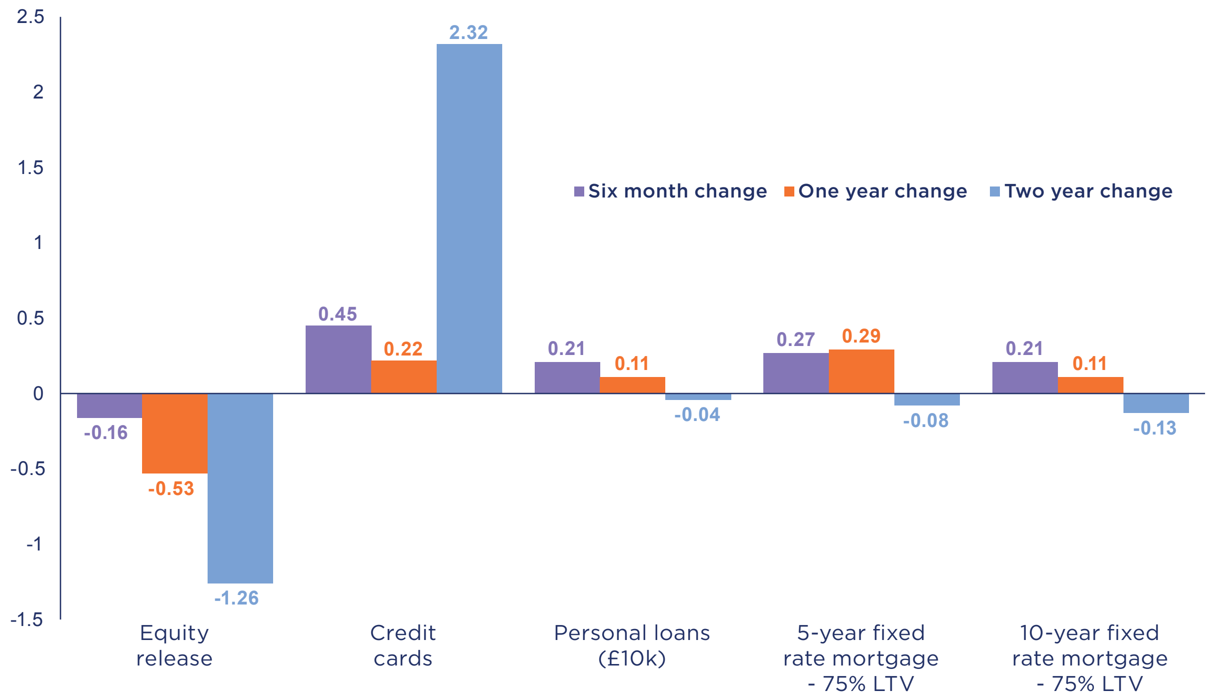


Source: Moneyfacts Plc, January 2021

This sustained fall in product pricing has helped to improve the affordability of lifetime mortgages, particularly when customers make use of additional flexibilities such as capital and/or interest repayment options.

In contrast, the average price of other personal borrowing products has risen over the last six and 12 months as the pandemic has impacted the market. Credit card pricing has increased the most, followed by five-year fixed rate mortgages at 75% LTV and personal loans of £10,000.

Percentage point change in the average rate charged on financial products over last two years



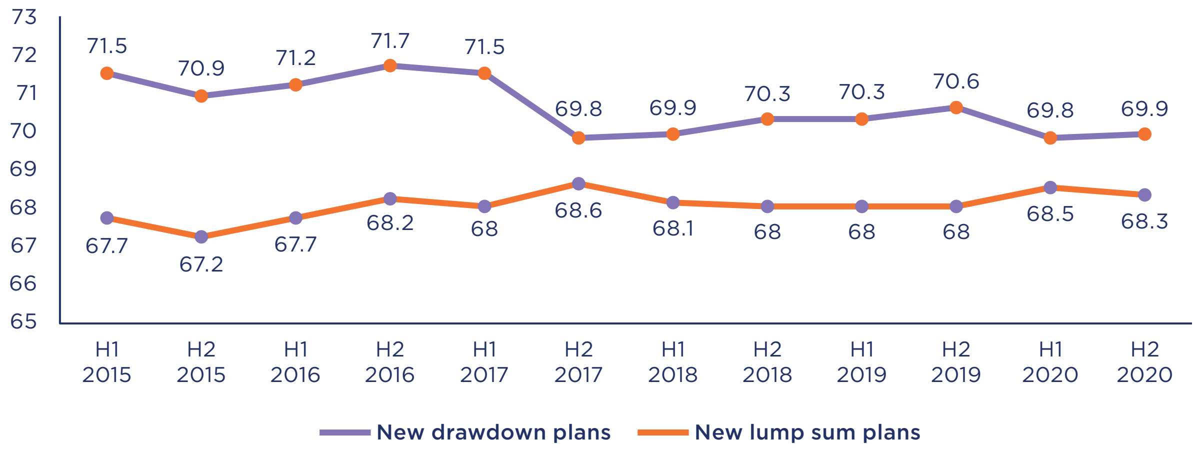
Source: Bank of England, January 2021

Customer trends

Average age of new customers stable

The average ages of new customers using lifetime mortgages to access property wealth via drawdown or lump sum plans was very stable during the second half of 2020, despite the unusual environment impacting household finances. The average customer taking a new drawdown lifetime mortgage was approaching their 70th birthday while the average new lump sum customer was aged 68.

Average age of new customers

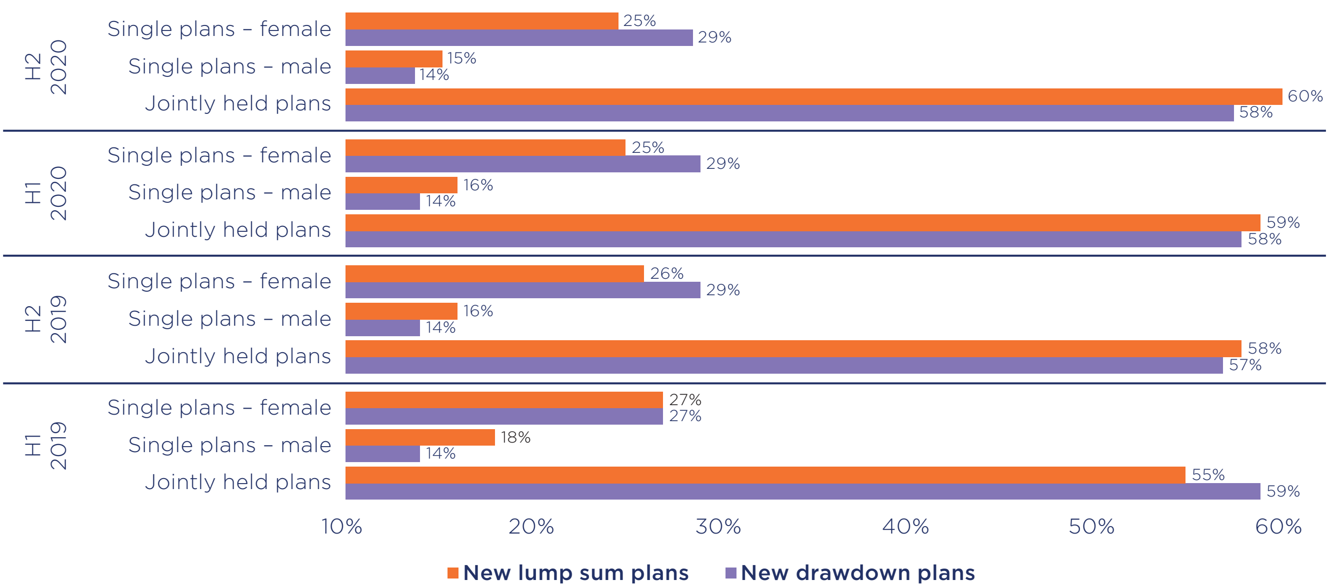


Jointly held plans continued to contribute to a growing share of new lump sum customer activity, reaching 60% for H2 2020 compared with 55% for H1 2019.

Comparing trends among men and women, new single plans taken out by female customers made up 27% of both drawdown and lump sum markets in H1 2019. However, women are now more likely to opt for drawdown plans, accounting for 29% of new sales in H2 2020 compared with 25% of new lump sum sales.

This may be a result of longer average life expectancies and lower average pension savings leaving customers looking for products enabling them to release property wealth in stages over a period of time, to boost their retirement income, rather than in a single lump sum.

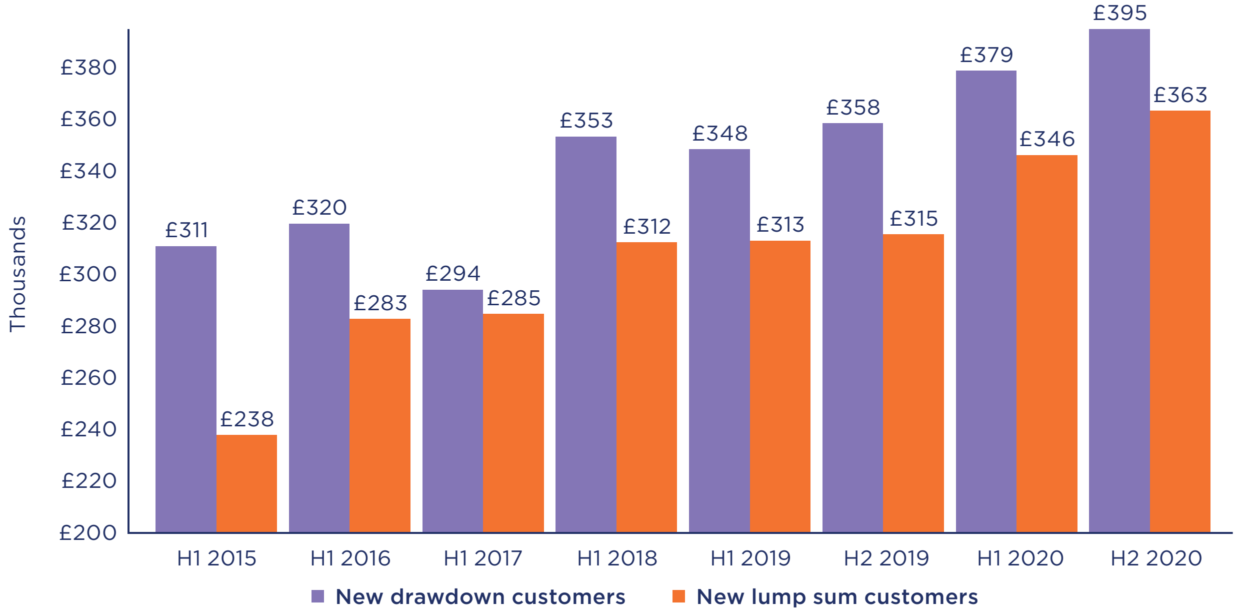
Trends in new plans agreed



Lower percentage of property wealth accessed in H2 2020

The average property value of new lump sum customers rose to its highest level (£363,232) of the last five years in H2 2020, while the average property value of new drawdown customers also rose to £394,956. In both cases, this may be influenced by the general upwards trend in UK property prices and also a sign that customers with above-average property wealth are seeking to withdraw equity.

Average house price of new customers



The average maximum percentage of property wealth that can be accessed by equity release customers at different stages of later life has been reduced slightly across most age groups over the last six months. Those aged 60 could typically access up to 25.9% of the value of their home in January 2021, down from 26.3% in July 2020, while those aged 90 can access 50.1% compared with 50.7% six months earlier.

Average maximum loan to value by age

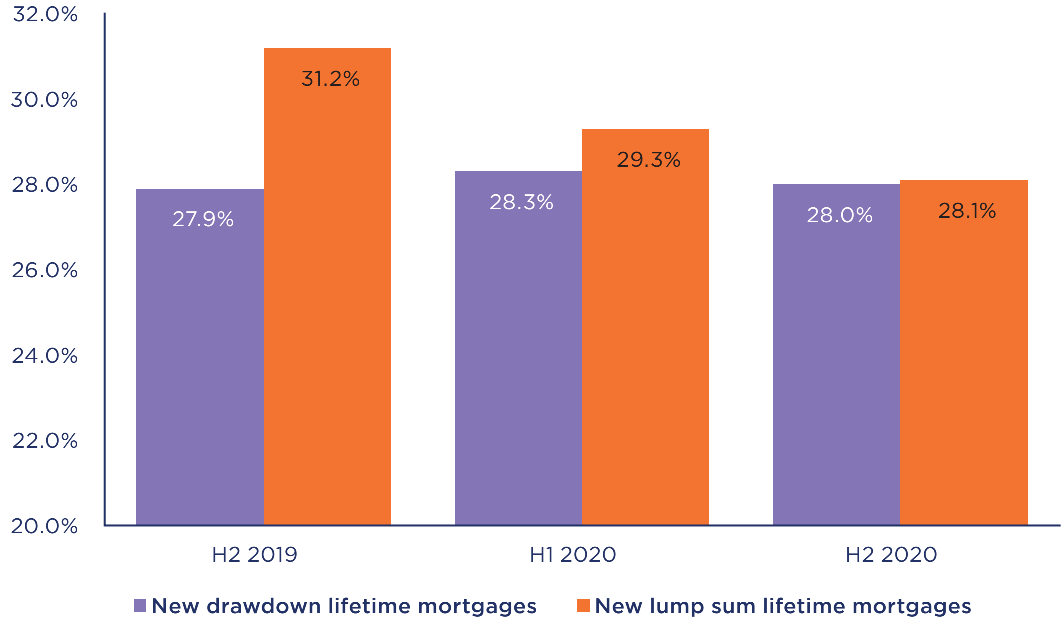
Period	55	60	65	70	75	80	85	90
Jan 21	**19.5%**	**25.9%**	**31.3%**	**36.7%**	**42.0%**	**46.6%**	**49.8%**	**50.1%**
Jul 20	20.2%	26.3%	31.5%	36.9%	42.2%	46.9%	49.5%	50.7%
Jan 20	18.8%	25.3%	30.4%	35.7%	40.9%	45.9%	46.9%	49.0%
Jul 19	17.1%	23.5%	28.6%	31.3%	38.9%	44.1%	46.1%	48.0%

Source: Moneyfacts Plc.

Among new plans taken out, the average size of a new lump sum lifetime mortgages slightly increased in the second half of the year, rising to £102,143 in H2 2020 from £98,499 in H1 2020. This rise was partially offset by a 5% increase in the average property value among new lump sum lifetime mortgage customers, which meant the average LTV dipped to 28.1% in H2 2020 from 29.3% in H1 2020.

Similarly, while the average drawdown plan rose to a total of £110,591 – made up of an initial £76,453 advance with £34,138 held in reserve – the average customer's higher house price meant that borrowing reduced in percentage terms, from 29.3% LTV to 28.1%.

Average LTV on new drawdown and new lump sum lifetime mortgages

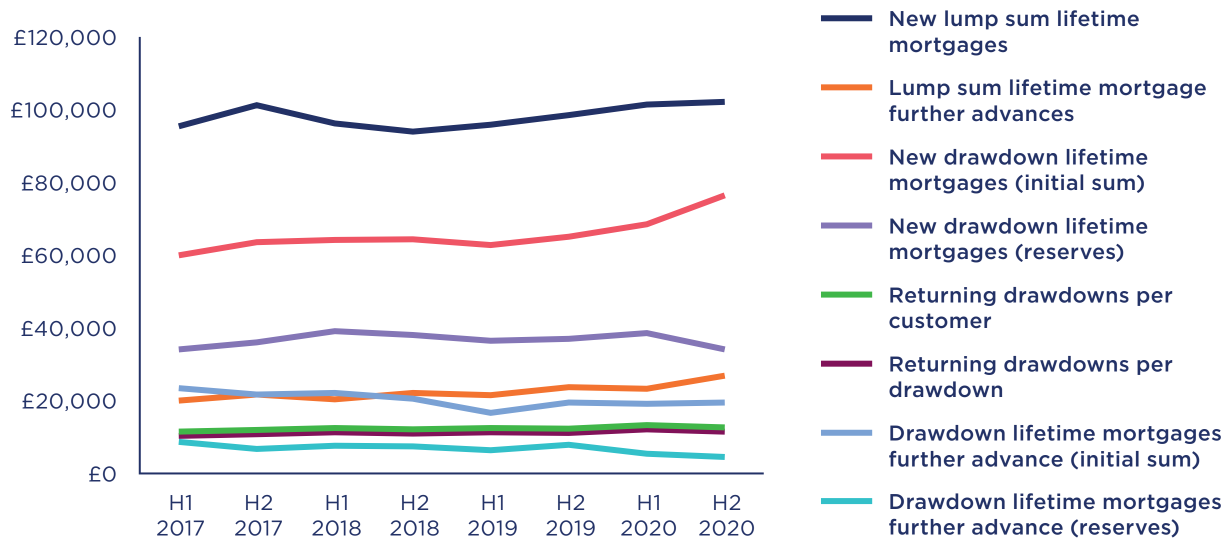


Returning drawdown activity in H2 2020 was noticeably quieter than in previous periods, with 13,489 customers served – the lowest in three years since H2 2017. Further advance activity increased slightly from 1,668 in H1 2020 to 2,081 in H2 2020 but was similarly quieter than a year earlier in H2 2019 when 2,248 further advances were agreed.

These are potentially signs of existing customers holding back before drawing on additional borrowing, rather than leaning on extra reserves or any increase in their overall housing equity to cope with the initial impact of the Covid pandemic on their household finances.

Across new and returning customers, the average amounts of property wealth released remained relatively stable in H2 2020. While new drawdown plans increased compared with recent years, with first instalments reaching £76,453, they remained notably smaller than the typical new lump sum plan (£102,143) and this trend was accompanied by a reduction in average drawdown extra reserves, keeping overall plan sizes in balance.

Trends in average amounts of property wealth released



Appendix

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.

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 560 member firms and over 1,450 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 £32bn 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 Spring 2021 using data from new plans taken out in the second 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.

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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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