Equity Release Council

Market report

Autumn 2021

Foreword

While the past year has seen the equity release industry show resilience in the face of uncertainty as it climbs back towards pre-pandemic activity levels, it has also brought further improvements in product choice as equity release becomes a flexible financial tool to support later life financial plans.

Overall customer numbers in H1 2021 were broadly consistent with this time last year, while the number of new plans agreed returned to the pre-pandemic activity levels last seen in H1 2019 and 2018. Interest rates remained low and product options remained high; nearly 200 new product options were launched in the first half of this year, and there are now more than double the number of options available than was the case two years ago.

Against this backdrop, property wealth continues to evolve from having been seen as an 'emergency fund' in retirement to an enabler of people's life ambitions and financial goals. The total value of UK private property is at a record high and house price rises over the last year will have also mitigated the impacts of compound interest for existing equity release customers.

Our recent report, *Home advantage: intergenerational perspectives on property wealth in later life*, revealed almost a third of homeowners see their mortgage as an investment in their future because they are building up an asset over time. Two in five (40%) homeowners agree it is becoming more acceptable to have a mortgage in later life, while 57% are interested in accessing money from their property as they age.

This fundamental shift in perceptions means later life products, advice, policy and financial education must also keep evolving. This year has already been a busy one in this regard, with an increasing variety of firms seeking Council membership and new resources including the second edition of our adviser guide launched to reflect the evolution of the market.

Property wealth will remain critical to the nation's financial wellbeing and later life security in the post-pandemic world. It is equally crucial that a commitment to delivering good consumer outcomes through expert advice, flexible products and robust safeguards remains central to everything we do.

David Burrowes,
Chairman of the Equity Release Council

Property wealth continues to evolve from having been seen as an 'emergency fund' in retirement to an **enabler of people's life ambitions and financial goals**.

Executive summary

Market context [page 4]

- Strong performance in the housing market saw UK private property wealth increase from £4.21 trillion at the end of H1 2020 to an unprecedented £4.87tn at the end of H1 2021.
- The overall value of UK housing stock rose from £5.67tn to £6.42tn over the last year.
- Households repaid more than £19bn of mortgage capital during both Q1 and Q2 2021, having never repaid more than £18bn in any previous quarter.
- Rising property prices means more than three quarters of the value of the average home is tied up in equity rather than debt, leaving £201,642 of property wealth for its owner to draw on.
- House price rises over the last year will have helped to balance out the impact of compound interest for some existing equity release customers. With the annual rate of UK house price growth having been above 7% since January 2021, a customer paying 6% interest could have seen their property equity grow faster than their loan, while a customer paying 3% interest could have seen their equity grow more than twice as fast.

Overall customer activity – [page 6]

- 35,860 new and returning customers were served in H1 2021, unlocking £2.3bn of property wealth to support their finances.
- Customer numbers steadily rose over the first half of 2021 with June seeing the largest number of new plans agreed (3,348).
- New customer levels remained broadly consistent with those seen in H2 2020, dipping slightly from 21,917 to 21,596 new plans taken out, but higher than this time last year when the first lockdown slowed activity (18,420 new plans).
- Returning drawdown numbers remained subdued – a trend that has persisted since the onset of the pandemic – while the number of further advances agreed were slightly below the numbers seen in H2 2020.

Product features and pricing [page 7]

- 180 new product options appeared during the first half of 2021, pushing the total range to a record high (from 488 in January 2021 to 668 in July 2021).
- Strong competition has meant consumers have access to double (127%) the number of product options than two years ago.
- More than two thirds (68%) of products allow customers to make voluntary capital repayments with no early repayment charge, up from just over a half (54%) a year earlier.
- Nine in 10 (89%) products also offer fixed early repayment charges, up from 56% six months earlier.
- The average equity release rate crept up modestly to 4.26% but there are still more options available today with rates of 4% or lower than a year ago.
- Interest rates have plummeted by nearly two percentage points over the last five years.

Customer trends [page 11]

- The average age of new customers remained stable in H1 2021. The average new drawdown customer was 70 years old while the average age of new lump sum customers edged up to 68.4.
- Almost a third (30%) of new drawdown single plans are being taken out by female customers, the highest level seen in the last two years.
- The average house price of new customers continues to rise to record levels for both new drawdown (£419,166) and lump sum (£406,139) plans. This comes as UK property prices have increased over the last year to reach an average of £265,668 (Office for National Statistics (ONS), June 2021).
- Across new lump sum and new drawdown customers, the average amounts of property wealth released increased slightly but were offset by higher house prices, meaning loan-to-values remained stable.

Market context

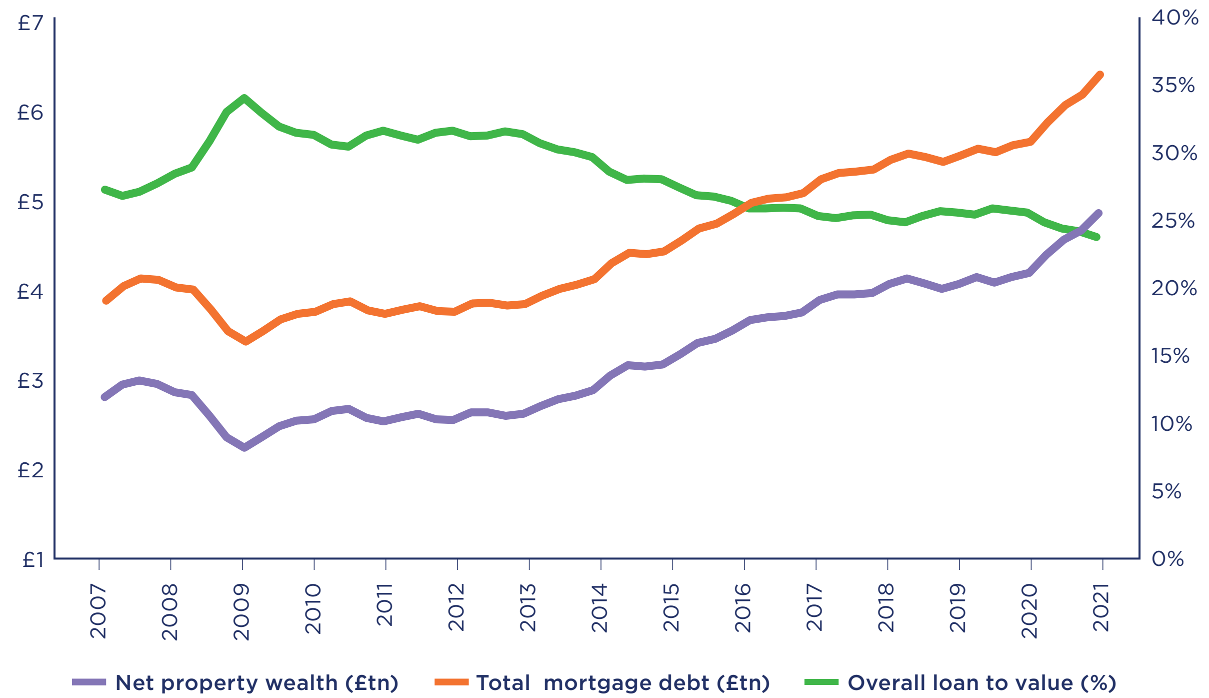
The UK property market continued its strong performance during the first half of 2021, with widespread consumer demand given extra impetus by the continuation of the Stamp Duty Land Tax (SDLT) holiday on to the first £500,000 of any residential house purchase until the end of June.

As a result, private property wealth increased from £4.21 trillion at the end of H1 2020 to £4.87tn at the end of H1 2021, as the overall value of UK housing stock rose from £5.67tn to £6.42tn.

Overall mortgage debt also rose during this period to exceed £1.5tn for the first time on record in Q1 2021 and reach £1.54tn by the end of H1. Data from UK Finance shows over half of new homeowner loans granted in the first half of this year will end after the borrower turns 65, as the experience of carrying mortgage debt into later life increasingly becomes the norm.

However, rising property prices meant the average loan-to-value (LTV) fell to a new low of 24.1% by the end of H1 2021, with more than three quarters of the value of the average home tied up in equity rather than debt. With house prices having reached £265,668, this means the average home has £201,642 of equity for its owner to draw on: more than £3 for every £1 of mortgage debt.

UK trends in private property wealth

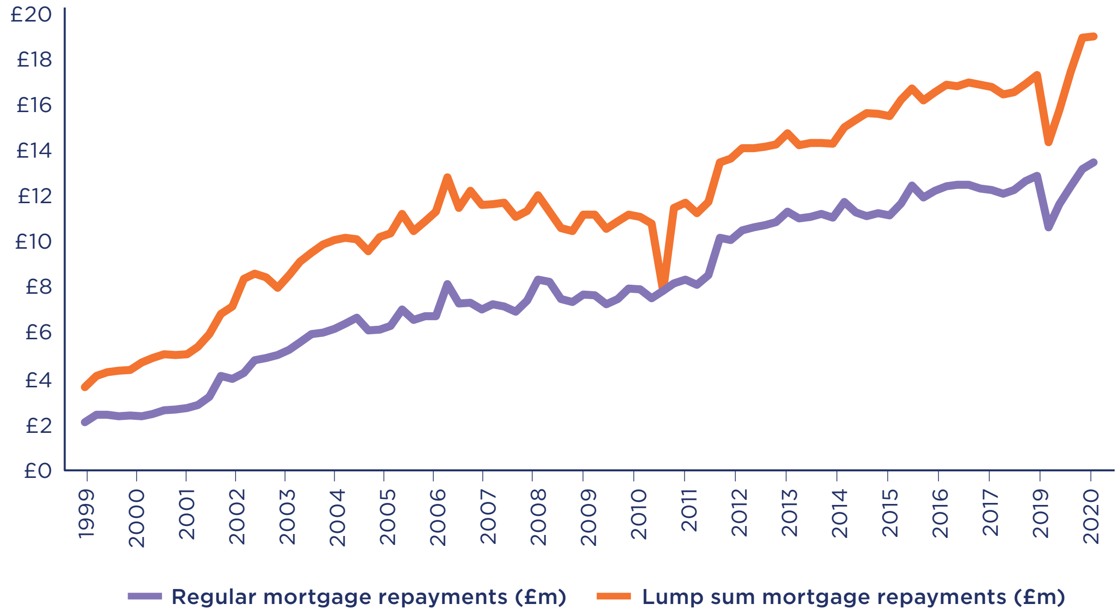


Source: Equity Release Council, Office for National Statistics, Bank of England

The first half of 2021 also saw mortgage capital repayments increase to record levels as some households exited the temporary payment holidays used to cope with the initial impact of the pandemic and resumed regular repayments. Having never previously exceeded £17.7bn in a single quarter, both Q1 and Q2 2021 saw households repay more than £19bn of mortgage debt each quarter through a combination of regular monthly instalments and lump sum overpayments.

Overall mortgage capital repayments rose 20% annually to reach £38bn in total during H1 2021, equivalent to £200m per day or £3,500 per mortgaged household. Alongside rising house prices, this trend will have contributed to some households building up more equity in their properties to store up for future use. The Council's report, *Home advantage*, demonstrates the financial benefits of paying down a mortgage compared with renting can add up to over £326,0000 across a thirty-year period.

Trends in regular and lump sum mortgage repayments



Source: Equity Release Council, Bank of England

Rising house prices over the last year will have helped some existing equity release customers as well as providing new customers with more property wealth to draw on. The annual rate of house price increases has been above 7% since January 2021 according to the UK House Price Index.

This means house price rises over the last year may have balanced out the impact of compound interest for some customers. For example, a customer paying 6% interest may have seen their property equity grow faster than their debt, while a customer paying 3% interest could have seen their equity grow more than twice as fast.

Like any investment, there is of course a risk that property values can fall. But coupled with the increase in equity release product choices, including at higher loan-to-values, any sustained increase in house prices may support re-broking or re-mortgaging opportunities for some existing equity release customers by limiting the erosion of equity remaining in their homes – or even increasing it – which is an important factor in the viability of switching to a new plan.

Other factors include whether an early repayment charge (ERC) is due and whether there is a more suitable product available than the customer's existing product, considering flexibilities as well as rates. Existing customers can speak to their original adviser or another firm in the market to help assess if re-broking might be applicable to their circumstances and might benefit them financially.

Having never previously exceeded **£17.7bn** in a single quarter, both Q1 and Q2 2021 saw households repay more than **£19bn** of mortgage debt each quarter through a combination of regular monthly instalments and lump sum overpayments.

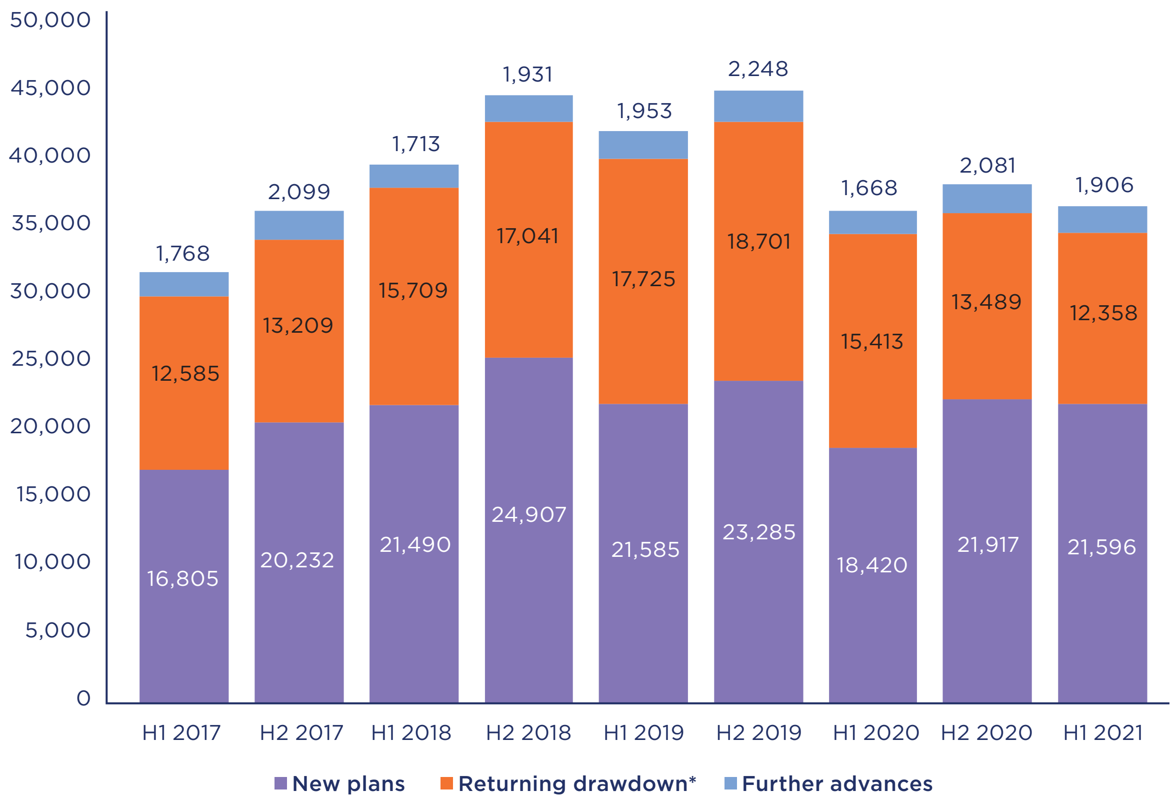
Overall customer activity

Continuing pandemic measures impact customer numbers in H1

Overall, H1 2021 saw 35,860 new and returning equity release customers served, unlocking £2.3bn of property wealth as a result.

While the Covid-19 pandemic and successive lockdowns continued to impact activity in the first half of this year, customer numbers steadily rose from Q1 to Q2 with June seeing the largest number of new plans agreed (3,348).

Half-year trends in equity release customer numbers



New customer activity in H1 2021 remained broadly consistent with the previous period, dipping slightly from 21,917 to 21,596 new plans taken out, but higher than a year earlier (18,420). The number of new plans agreed has broadly returned to pre-pandemic levels, as the market shows signs of resilience and wider consumer confidence has improved since H1 2020 (*Deloitte Consumer Tracker, Q2 2021*).

Returning drawdown numbers remained subdued, decreasing 8% from H2 2020 as existing customers paused on making extra withdrawals – a trend that has persisted since the onset of the pandemic. A total of 1,906 further advances were agreed in H1 2021, slightly below the number seen in H2 2020 but broadly in line with pre-pandemic activity.

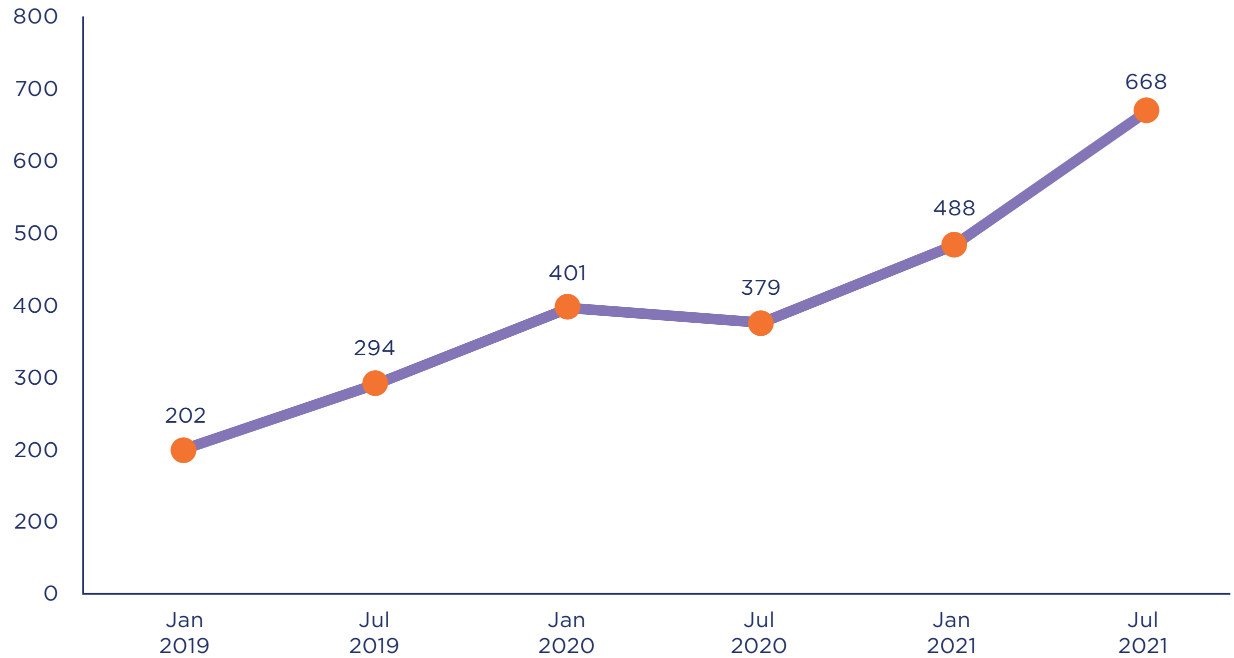
Product features

Number of equity release products increased by 180 in H1 2021

A total of 180 new product options appeared on the market in the first half of 2021, pushing the overall size of the product range to a record high from 488 in January 2021 to 668 in July 2021.

Consumers have access to more than double (127%) the number of product options than two years ago. This reflects a strong level of competition in the market as equity release providers seek to offer greater flexibility to consumers.

Number of products available in the equity release market



Source: Moneyfacts Plc, July 2021

The range of product flexibilities available to suit consumers' varying needs also continues to rise. More than two thirds (68%) of products now allow customers to make voluntary capital repayments with no early repayment charge, up from just over a half (54%) a year earlier.

Nine in 10 (89%) products also now offer fixed early repayment charges, up from 56% six months earlier. A quarter (26%) of products offer customers an inheritance guarantee, while half (50%) provide downsizing protection.

127% increase in product options in the last two years

Equity release product features

53%

of products are available to customers living in sheltered or age-restricted accommodation, subject to individual lender requirements

39%

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

68%

of products allow voluntary capital repayments with no early repayment charge

50%

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

89%

of products offer fixed early repayment charges

55%

of products offer drawdown facilities

26%

of products offer an inheritance guarantee, to ringfence part of the property's value as a minimum protected amount to leave behind

2%

of products allow customers to receive regular income payments

Source: product data supplied by Key, July 2021

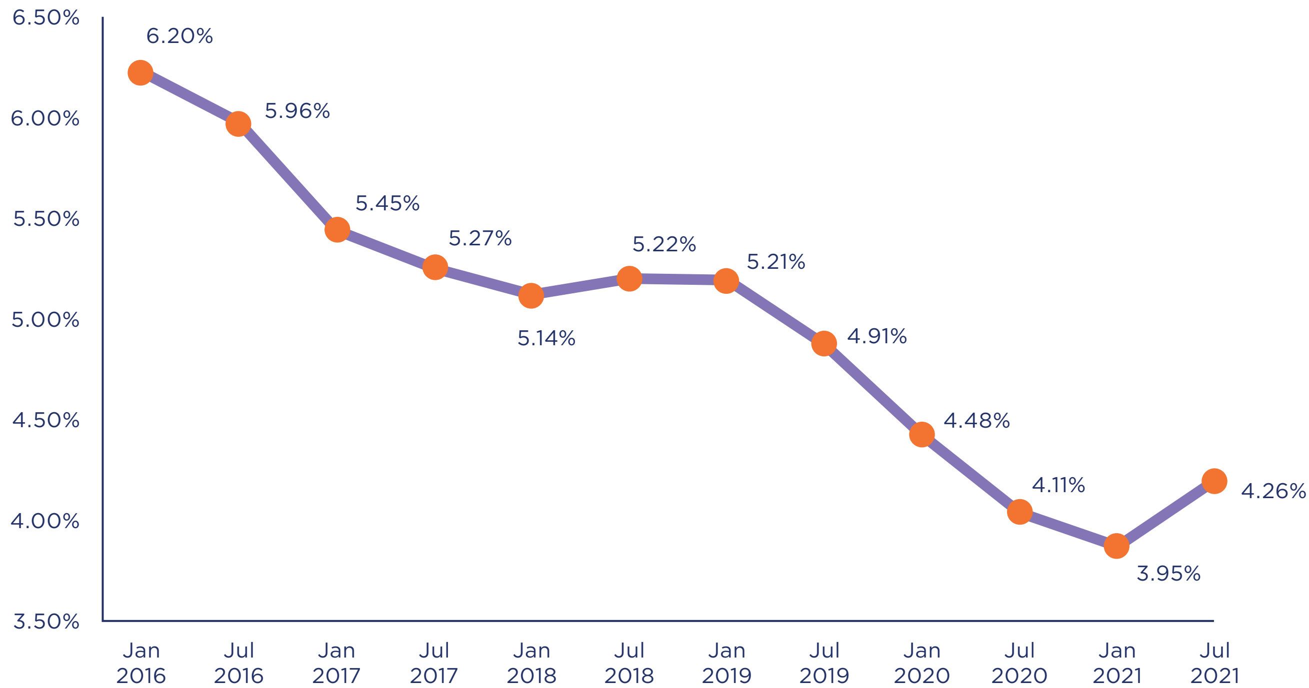
Product pricing

Nearly 50% increase in the number of products with interest rates of 4% or lower

Over the last six months, the average equity release rate crept up modestly to 4.26%. This was a result of customers gaining more options to access higher loan-to-value (LTV) deals, as well as new products allowing them to pay some or all of the interest each month initially or choose between fixed or variable early repayment charges.

Over the last five years, rates have plummeted by nearly two percentage points, which can mean significant savings for consumers considering equity release. Importantly, the most suitable product option may not necessarily have the lowest rate, so speaking to a regulated adviser who is a member of the Council is vital to receive a personalised recommendation.

Average lifetime mortgage rates

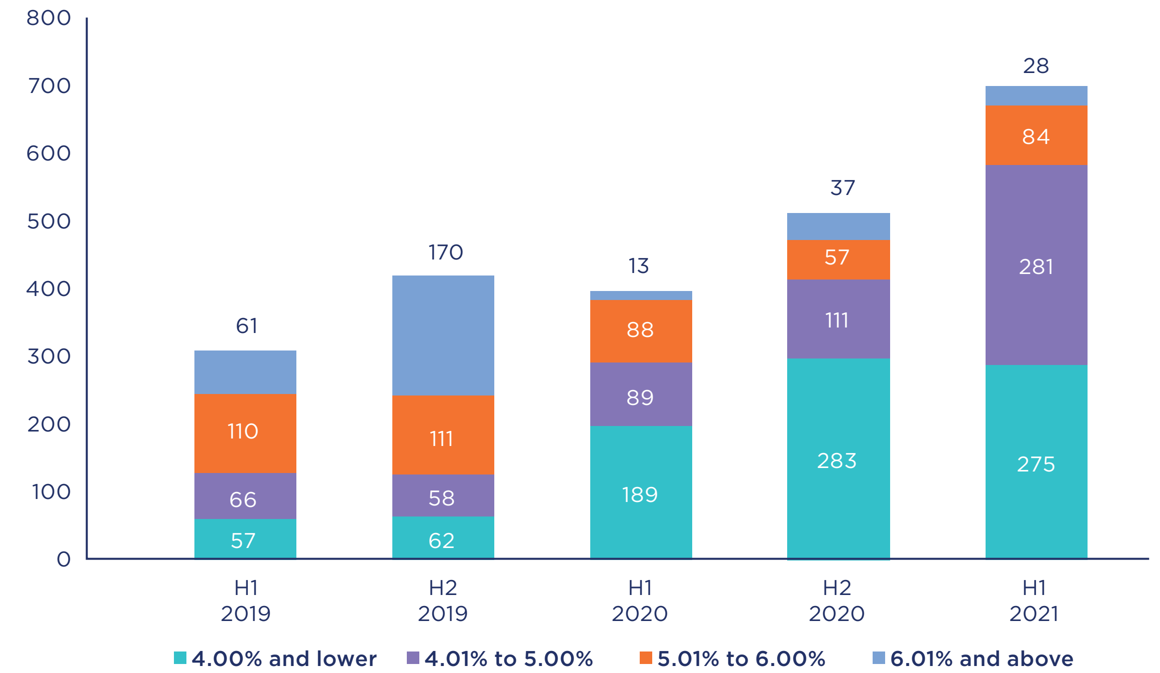


Source: Moneyfacts Plc, July 2021

Despite average rates having increased slightly as the product range continues to grow, there are still significantly more options available today with rates of 4% or lower than this time last year. As of July 2021, there were 275 products offering a rate of 4% or lower, 46% more options in this price range than a year ago (189).

All products recognised by the Council continue to offer a range of consumer protections, including: a fixed or capped interest rate for life; a no negative equity guarantee; the right to transfer or 'port' the loan to an acceptable alternative property; 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.

Number of equity release products at different price bands

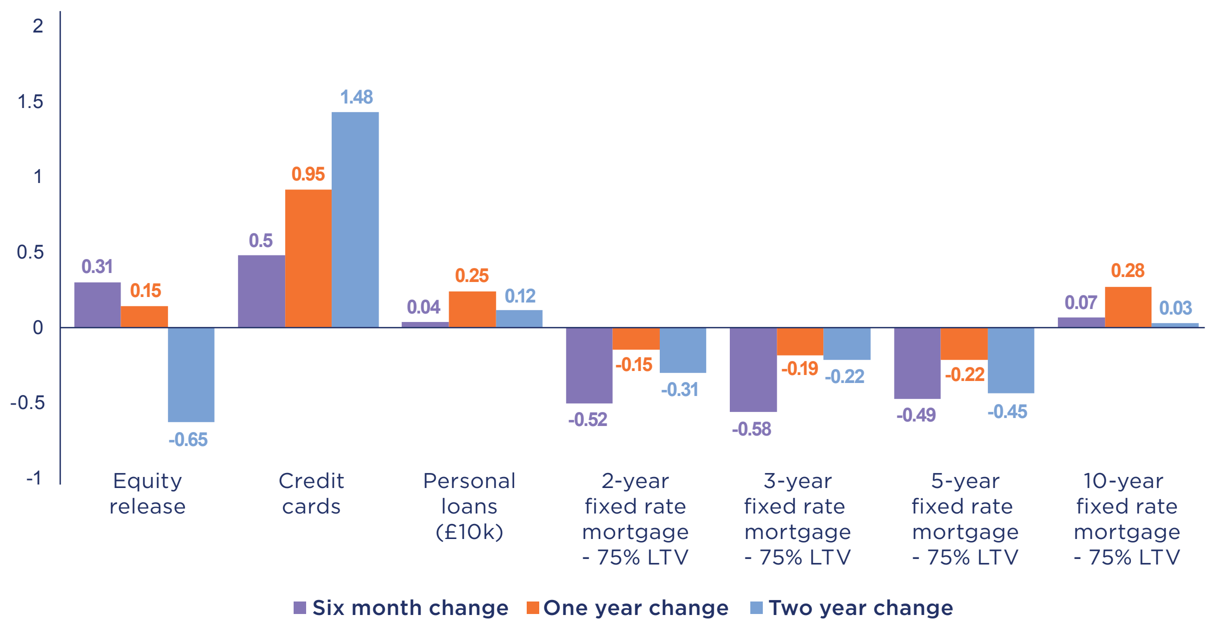


Source: Moneyfacts Plc, July 2021

Looking more broadly at average rates across consumer credit and lending products, many have increased over the last six to-12 months with the exception of two, three and five-year fixed rate mortgages. Credit card rates have increased the most.

It's important to note that equity release mortgages are priced differently to residential mortgages, because the products are different and are designed to last a lifetime. The way they work means people are protected from negative equity (via the no negative equity guarantee), guaranteed the right to tenure, and ensured a fixed or capped interest rate for the lifetime of a loan for an indefinite term with no risk of repossession in the event of default and no fixed requirement to make regular repayments.

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



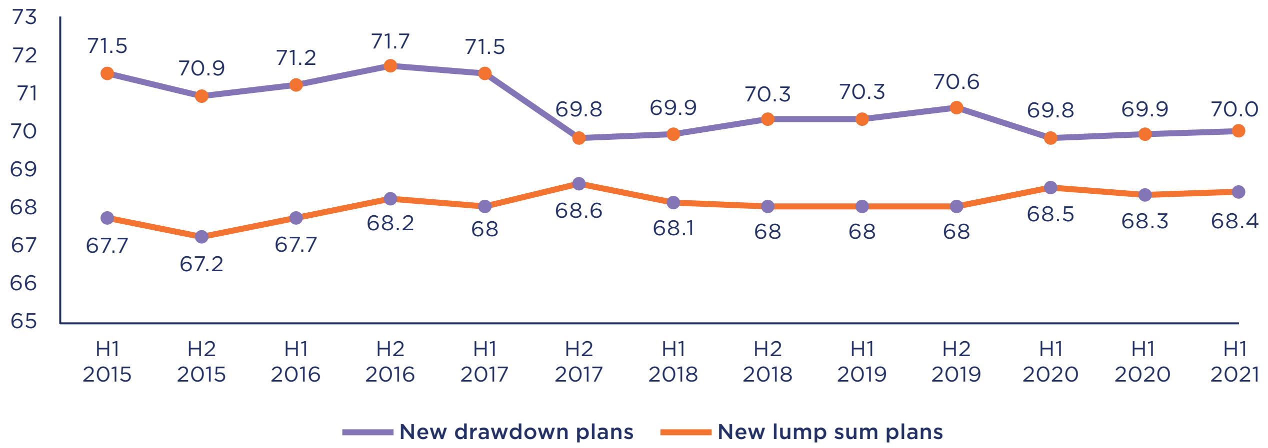
Source: Bank of England, July 2021

Customer trends

Average age of new customers remains stable

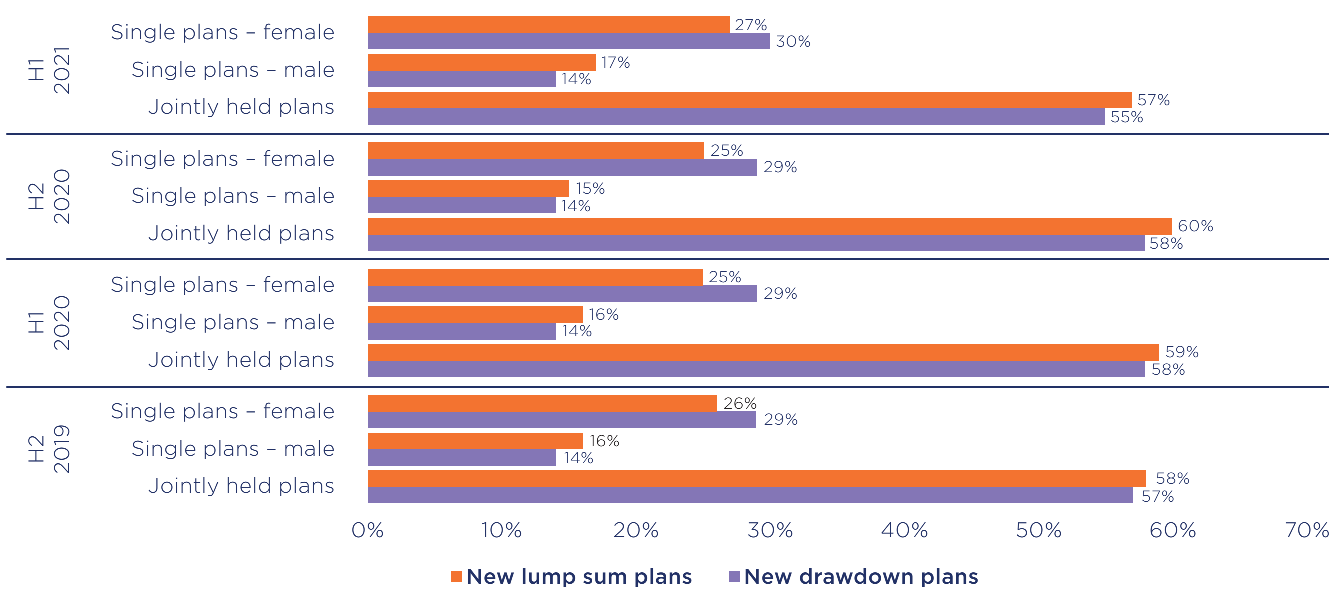
The average age of new customers unlocking property wealth via drawdown or lump sum plans remained stable in the first half of 2021. The average new drawdown customer was 70 years old while the average age of new lump sum customers was 68.4.

Average age of new customers



Almost a third (30%) of new drawdown single plans are being taken out by female customers, the highest level seen in the last two years. This comes as the pandemic has shown women approaching retirement have been most anxious about supporting themselves in later life and having to pay for care costs (Equity Release Council and Key, *The Pension / Property Paradox: revisiting the retirement confidence gap*, November 2020).

Trends in new plans agreed

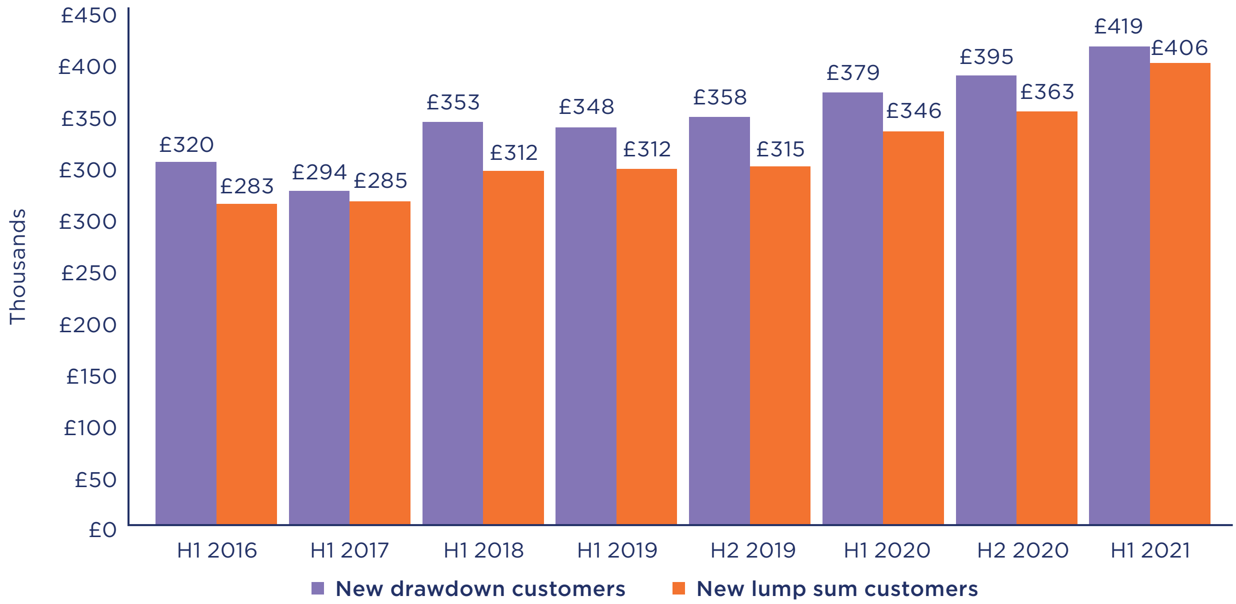


New customer property values rise to record levels

The average house price of new customers continues to rise to record levels for both drawdown (£419,166) and lump sum plans (£406,139). This comes as property prices have increased more broadly over the last year, with UK average property prices reaching £265,668 (ONS, June 2021).

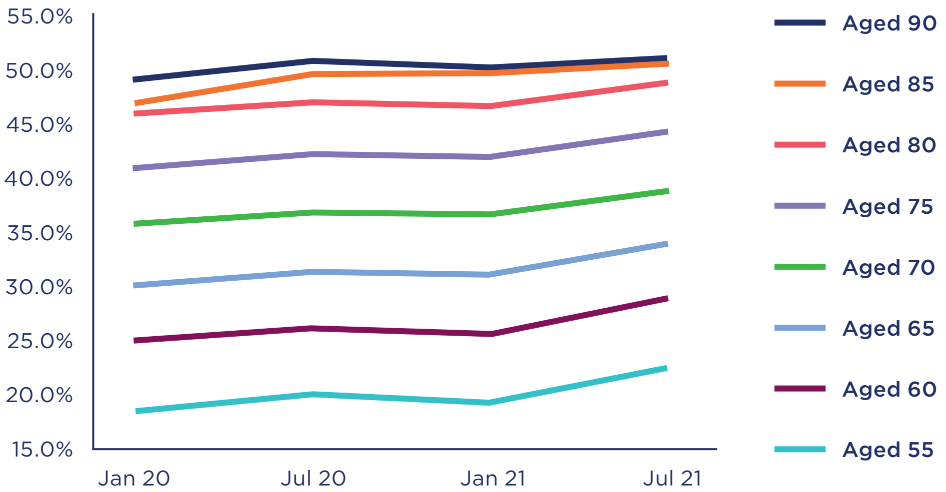
The Stamp Duty Land Tax (SDLT) holiday, which was in place until June of this year for the first £500,000 of any residential house purchase, will have had an impact. Some over-55s will have seen their properties rise in value; some will have used equity release to gift their younger relatives so they could use the SDLT holiday to get on the housing ladder; while others will have used the SDLT holiday themselves to use equity release for their own house purchase.

Average house price of new customers



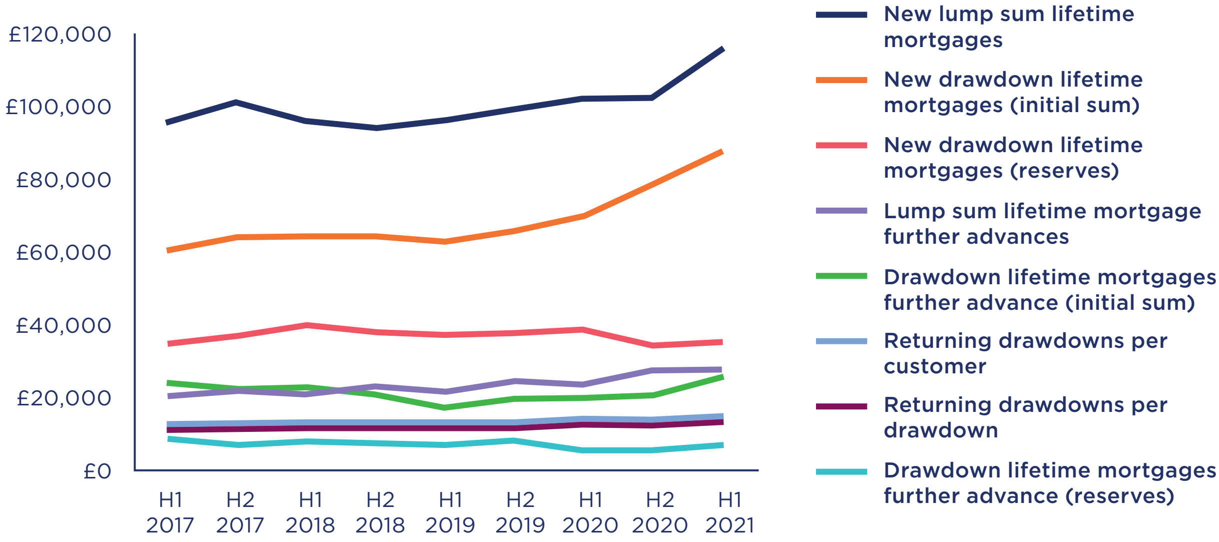
The average maximum percentage of property wealth available to customers has increased across all age groups over the last six months. Equity release customers aged 60 could typically access up to 28.9% of their property wealth in July 2021, while those aged 70 could access up to 39.0%, those aged 80 could access up to 48.8% and those aged 90 could access 50.9%.

Average maximum equity release loan to value available by age



Source: Moneyfacts Plc

Trends in average amounts of property wealth released

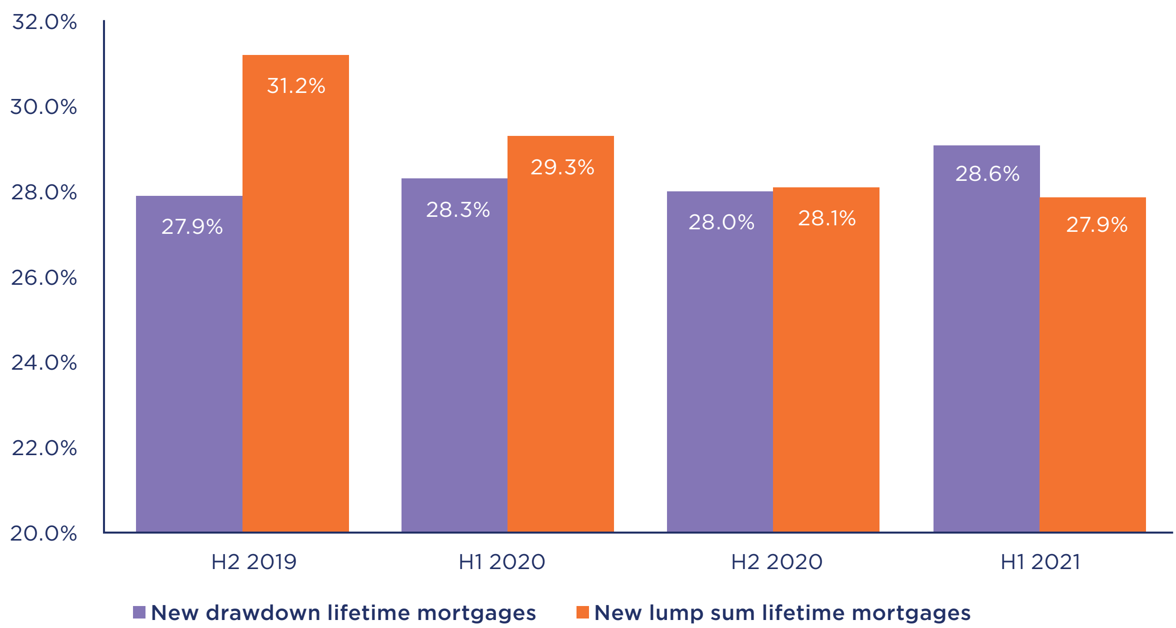


Across new lump sum and new drawdown customers, the average amounts of property wealth released increased slightly. Among new plans agreed, the average drawdown plan initial sum increased to £85,415 with an additional £34,448 held in reserve, having stood at £76,453 and £34,138 in H2 2020. For new lump sum plans, the average plan size increased from £102,143 to £113,237 over the same period.

These increases are likely to reflect the fact that fewer people are using equity release for discretionary spending during the economic disruption of the Covid-19 pandemic and are focusing on 'needs'-based reasons such as mortgage repayment or helping younger generations make the most of the SDLT holiday.

However, the increase in plan sizes was offset by the fact new equity release customers had higher-value homes than in previous periods and continued to withdraw property wealth in moderate amounts. For new drawdown lifetime mortgages, this meant the average loan to value (LTV) was 28.6% in H1 2021, slightly up from previous periods, while for new lump sum lifetime mortgages, the average LTV was 27.9%, down from 31.2% in H2 2019.

Average LTV on new drawdown and new lump sum lifetime mortgages



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 Equity Release 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 600 member firms and more than 1,500 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 570,000 homeowners have accessed £36bn 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.

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 2021 using data from new plans taken out in the first half of 2021, 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.

Equity Release Council