Setting the standard in equity release

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

Equity Release Market Report

Autumn 2014

Introduction

This second edition of the Equity Release Market Report continues to show the growing importance of property wealth to UK homeowners over the age of 55. Customer numbers are rising, interest rates remain low in historic terms and the amounts of equity withdrawn add up to a significant financial boost compared with average incomes in later life.

The latest data reveals an upwards shift in the average age of customers, and also suggests equity release is becoming increasingly popular among married and cohabiting couples. Innovations across the market are helping to make equity release a valuable option for more and more people to support their financial planning – for example, with some emerging products offering new repayment flexibilities.

Our work with government, regulators and industry shows a growing interest in equity release as a means of solving many of the financial challenges facing our ageing population: from limited savings to lingering secured or unsecured borrowing. The arrival of the Mortgage Market Review (MMR) in April has brought a new focus on the issue of lending into retirement, and the second half of the year promises to bring continuing discussions and new partnerships to offer a growing range of solutions that meet consumer needs. With some mainstream mortgage lenders restricting lending to older customers, equity release can fill the funding gap.

For every new customer discovering the value of equity release, there are many more whose financial outlook could be improved by tapping into the biggest asset at their disposal: their home. This year's Budget has pushed the challenge of funding retirement even further into the spotlight. As well as supporting wider efforts to educate older people about their options, we will continue to work hard to increase awareness of the many ways in which equity release can change lives for the better.

Nigel Waterson, Chairman, Equity Release Council

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Key findings

Product choices

- Drawdown products are still the majority preference, but the fastest growth of customers this year has been among those choosing lump sum lifetime mortgages: numbers have risen 16% compared with 13% for drawdown.

- The average value of equity release lending has also risen 12% to £63,741, but remains equivalent to less than a quarter of the average customer's housing wealth.

- Having opted for equity release, total house price growth of 40% over a 16 year period would preserve the typical customer's remaining equity while 68% house price growth would ensure it retains its value in line with 2% annual consumer price inflation. National indices show the average house price growth over 16 years exceeds 260% and has never dropped below 112%.

Customer profiles

- The rising age of customers means the average is now approaching 71. Drawdown customers (71.6) wait almost three years longer on average than lump sum customers (68.8), who act nearer the traditional retirement age to unlock their housing wealth.

- Married or cohabiting couples now account for two thirds of new plans (66%), up from 61% last year as the share of loans to divorced, separated or widowed customers falls.

Regional trends

- Outside London, the initial amount of equity released as a lump sum or first drawdown instalment provides customers with a financial boost equivalent to 18 months of net income for pensioner couples or almost three years of net income for single pensioners.

Personal borrowing rates tracker

- The average equity release interest rate rose by 3 basis points (bps) in the first half of 2014 – nearly seven times less than the average fixed mortgage rate which rose by 20bps.

- Credit card and loan pricing has fallen – but income and age restrictions for these products and residential mortgages limit the options for older borrowers.

Product choices

- **Drawdown is still the majority preference, but the fastest growth of customer numbers is among those choosing lump sums**
- **Average value of equity release lending grows, yet remains less than a quarter of the typical customer's total housing wealth**
- **Rising house prices help to limit the effects of interest**

Lump sum products grow in popularity

Almost two thirds of new customers (65%) continued to opt for drawdown products in the first half of 2014, choosing to boost their retirement income by accessing funds as and when they need them. However, there has been a slight shift in preference towards lump sum lifetime mortgages as customer numbers have grown across the equity release market year-on-year.

The number of lump sum customers has grown at a faster rate year-on-year than drawdown customers: 16% compared with 13%. This is likely to be influenced by people carrying existing debt – including mortgages – up to the point of retirement and seeking to consolidate their finances, as well as fund one-off expenses such as home improvements or holidays.

Home reversion plans, while still on offer, represent less than 1% of new plans agreed in the first half of 2014.

Equity release product preferences

	H1 2013	H1 2014	Annual growth in customer numbers
Lump sum lifetime mortgages	34%	35%	+16%
Drawdown lifetime mortgages	66%	65%	+13%
Home reversion plans	<1%	<1%	*na*

Source: *Equity Release Council members.*

Housing wealth and funds withdrawn are on the rise

The first half of the year saw little change in the typical housing wealth of new equity release customers: a 2% increase in house price compared with 2013 – equivalent to £4,369 for lump sum customers and £6,180 for drawdown customers – is unremarkable when property prices are rising across the housing market.

However, there has been significantly more growth in the average value of equity release lending. At £63,741, this was up by 12% in the first half of the year compared with the 2013 average, with lending through lump sum products up by almost four times as much as drawdown (22% vs. 6%).

Despite this, the typical value of equity released is equivalent to less than a quarter of the average housing wealth of equity release customers and significantly short of the maximum 50%+ loan to value (LTV) currently available through some products.

Typical housing wealth and equity released in H1 2014

	Average housing wealth	Average value of equity release lending	Average value as a % of housing wealth
Lump sum	£247,745 +2%	£74,896 +22%	30%
Drawdown	£283,836 +2%	£57,728 +6%	20%
All	£271,293 +2%	£63,741 +12%	23%

Source: *Equity Release Council members. Percentage changes are year-on-year.*

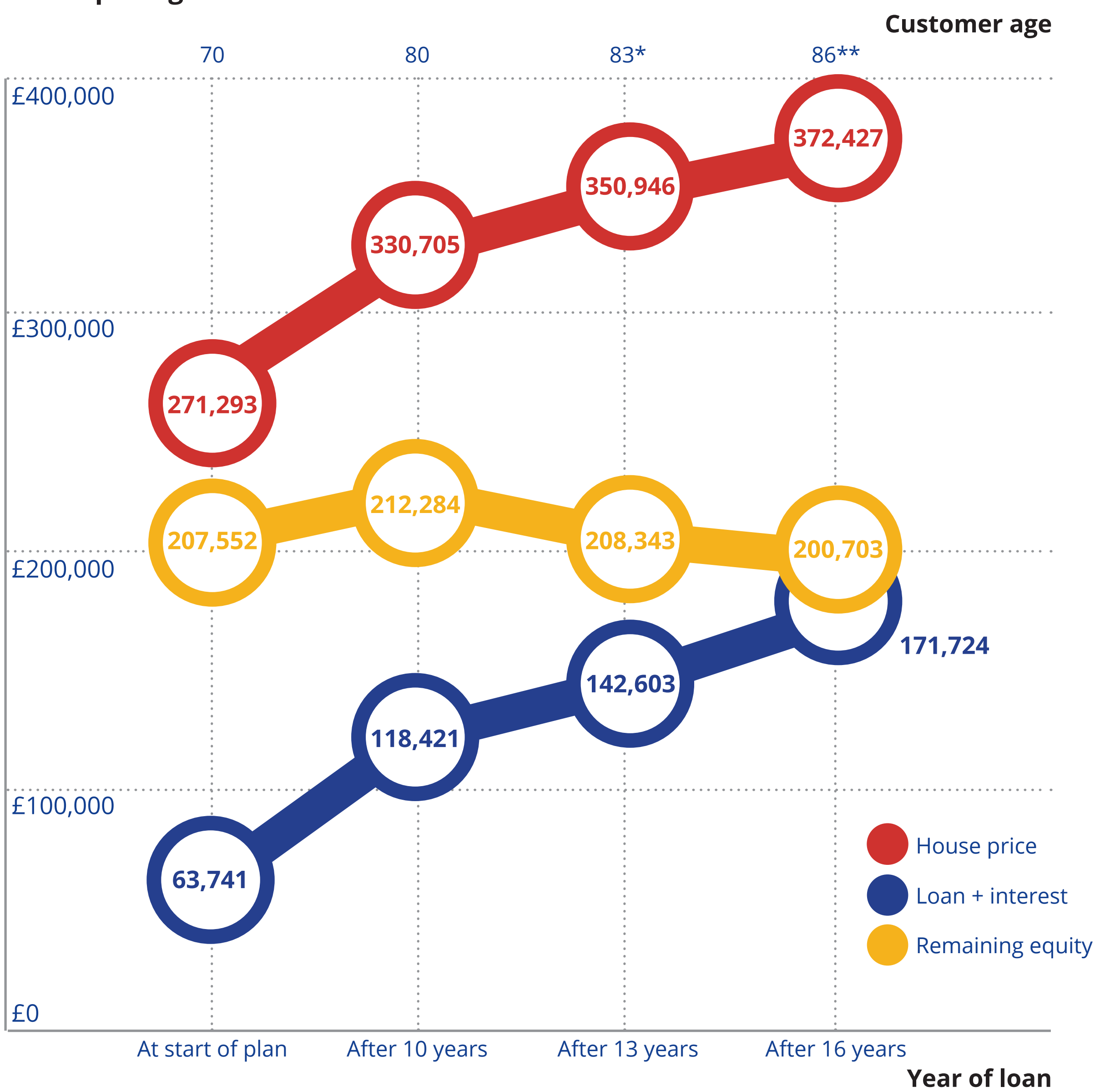
House price growth helps to preserve remaining equity

A common concern about equity release is whether the interest payable means customers – or their families – will end up owing more than their home is worth. Not only does the 'no negative equity guarantee' rule this out, but typical house price growth also balances the effects of compounding interest. While the loan will grow over its lifetime, so too will the value of the property and therefore the equity left in the home. Importantly, any equity released in order to fund home improvements can also enhance the value of the property.

For instance, the typical customer has passed their 70th birthday and is approaching their 71st. If they release £63,741 of equity from a home worth £271,293 – the average figures for H1 2014 – the loan will grow as shown below, based on the market average interest rate of 6.39% (June 2014).

However, rising house prices mean the remaining £207,552 of equity in their home will also grow, with this example based on a modest estimate of 2% annual house price growth. Long-run averages of the main UK house price indices all exceed 5% annual growth since they began in the 1970s/80s.

House price growth and the effects of interest



*****Average male life expectancy past 65 (ONS) ****** Average female life expectancy past 65 (ONS)

In this example:

- During the first ten years of the loan, 2% house price growth not only preserves the customer's remaining equity, but increases it by over £4,700
- It is only in the 14th year that the remaining equity begins to dip below the original amount
- Even after 16 years, over 96% of the customer's original equity share is still preserved to leave behind as part of an inheritance.

Lump sum customers will experience more of an effect, as they are typically withdrawing more equity at a younger age, yet for drawdown customers, the effects of interest will be less than in this example because interest is only applied to funds as they are withdrawn.

The example also shows that 40% house price growth over the full 16 years would preserve the remaining equity of £207,552 once the total loan and interest (£171,724) is paid. Consumer price inflation (CPI) would of course reduce the value of this remaining sum in real terms, but assuming an average of 2% annual CPI, house price growth of 68% over 16 years would ensure the remaining equity retains its value by boosting it to £284,924.

These house price growth figures may sound high, yet indices from Halifax, Nationwide and the Office for National Statistics show there has never been a period of 16 years – even bridging the 2007-08 financial crisis and subsequent recession – where house price growth has been below 112% (the average is 260% or more depending on the index used).

Case study: the lump sum option

Tom and Denise Fallowell withdrew a lump sum of £48,125 from their property in Leicester in 2013 in order to retire at the ages of 68 and 66 respectively, having worked as a truck driver and senior receptionist at a law firm. The value of their property at the time was £175,000.

Tom's medical history also meant that they were not able to receive a mortgage protection policy, leaving Denise unable to meet repayments should anything happen to Tom. This played a major part in their decision to take out equity release – having first considered the possibility a few years previously and eventually sought advice from Key Retirement Solutions after searching the internet in March 2013.

The majority of the lump sum – offered by the provider Just Retirement – was used to pay off their existing mortgage which was causing them concern as they had five and a half years left to pay having taken out the mortgage later on in life. They have used the remainder to dip into as and when they require to complement their savings and pensions, as well as to cover any additional expenses in retirement. It has also given them the opportunity to take a number of caravan trips, something they greatly enjoy.

Tom comments: "We could not have wished for better support when examining our options. We were provided with clear advice and information which left us feeling confident about our decision and with a good understanding of exactly what was involved. We would definitely recommend their services to anyone considering equity release.

"Equity release enabled me to retire and we are now in a position to live comfortably in our retirement having used the money released from our house to pay off the mortgage, leaving us free from added stress and concerns. It is a particular relief to me to know that Denise will be financially secure should anything happen to me, something I could not have guaranteed previously."

Customer profiles

- **The typical equity release customer is now approaching 71 as people unlock equity later in life**
- **Lump sums more often sought at a younger age while drawdown appeals at a later date**
- **Married or cohabiting customers account for a growing share of equity release plans**

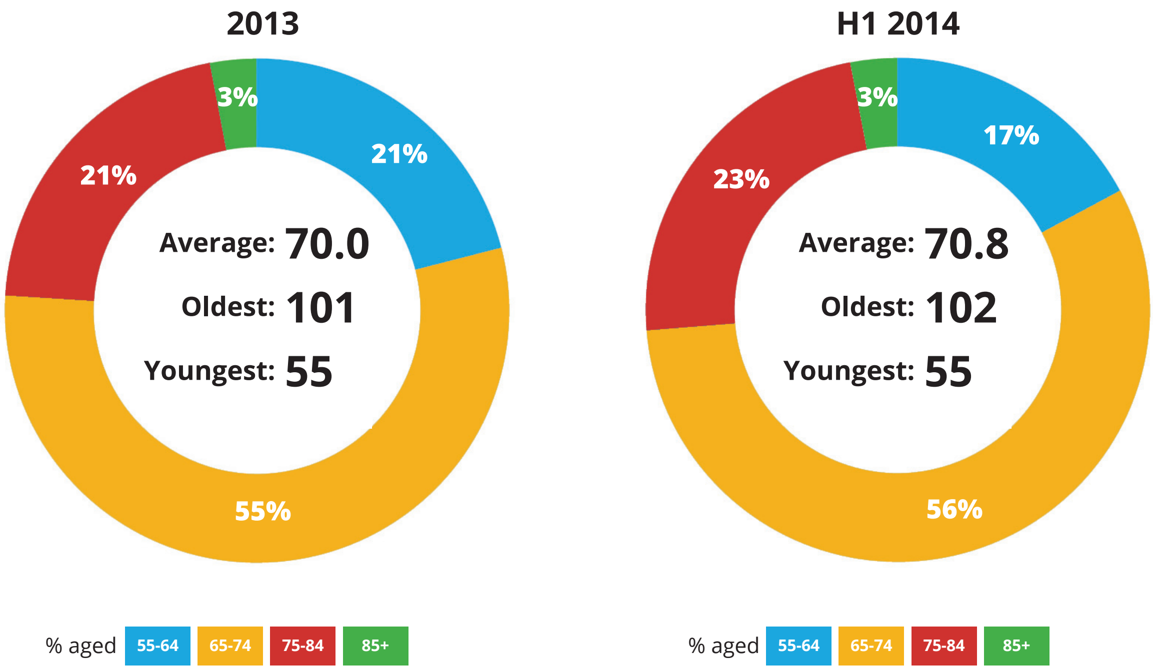
Age profile shifts upwards

The first half of 2014 has continued the recent trend whereby the age of new customers is slowly rising. Consumers taking out new plans between January and June were approaching 71, suggesting that people are waiting slightly later in life to take advantage of the wealth locked up in their homes.

This is also visible in the shifting age balance of new customers: those aged 55-64 made up 17% of new customers, compared with 21% throughout 2013. It is likely that this has been influenced by people working for longer and using other means – for example, work income or savings – to sustain them in the latter years of their career and the early stages of retirement.

The proportion of new customers taking out equity release at the point of retirement – from the former Default Retirement Age of 65 up to 74 – has risen slightly while more than one in four customers are now aged 75 or above.

Equity release customers' age profile



Source: *Equity Release Council members. Percentages do not add up to 100% due to rounding.*

Drawdown customers wait longer

There is also a link between age and the type of products people choose. Those who opted for lump sum lifetime mortgages in the first half of 2014 were younger (68.8) than those opting for drawdown products (71.6).

The fact that lump sums are sought out closer to the traditional retirement age again shows their usefulness as a means of clearing an existing mortgage, repaying other borrowing or lining up a holiday or home improvement project upon leaving work.

In contrast, the fact drawdown customers typically wait almost three years longer before accessing their housing wealth suggests they are more likely to have experienced a post-employment income drop and use equity release to boost their finances.

Average customer's age per product

H1 2014

Drawdown sum	Lump sum
71.6	68.8

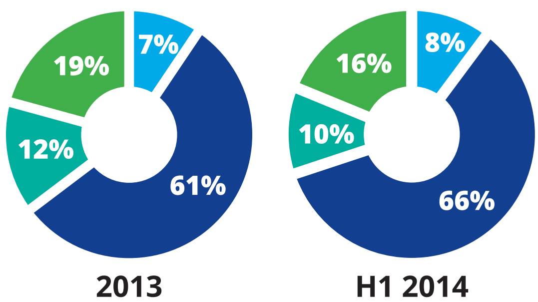
Source: *Equity Release Council members*

Growing uptake among married or cohabiting customers

As customer numbers have grown in 2014, there has also been an increase in the percentage of new equity release plans taken out by married or cohabiting couples. This has grown to 66% of new plans in the first half of the year from 61% during 2013, with the share of loans taken out by divorced, separated or widowed customers all falling.

This shift is mirrored by the increase in joint loans compared with single loans to single male or female customers: up to 64% for the first six months of 2014 compared with 60% in 2013.

Customers' relationship status



Source: *Equity Release Council members. Percentages do not add up to 100% due to rounding.*

Proportion of single and joint loans

	2013	H1 2014
Joint loans	60%	64%
Loans to single males	14%	13%
Loans to single females	26%	23%

Case study: the drawdown option

Edward and Anne Sutton, aged 74 and 69, took out an LV= flexible lifetime mortgage against their property in Worcestershire in January this year. They withdrew an initial sum of £20,000 with a guaranteed reserve of a further £40,000 as and when they need it. At the time, their property was valued at £240,000.

They found a local specialist adviser – Lifetime Solutions – through the Equity Release Council's website, recommended to them by a former colleague, who answered all their queries and made sure that they only borrowed the amount they needed. They had also previously discussed the possibility of using equity release with their children, who encouraged them to go ahead with it.

Withdrawing equity release from their home has put the Sutton's minds at ease for retirement, having been aware that if there were any unexpected costs or home improvements to be made, their current income would not be sufficient to cover them. It also allows the Suttons to visit their children and grandchildren who emigrated to Australia without having to worry about how to pay for it.

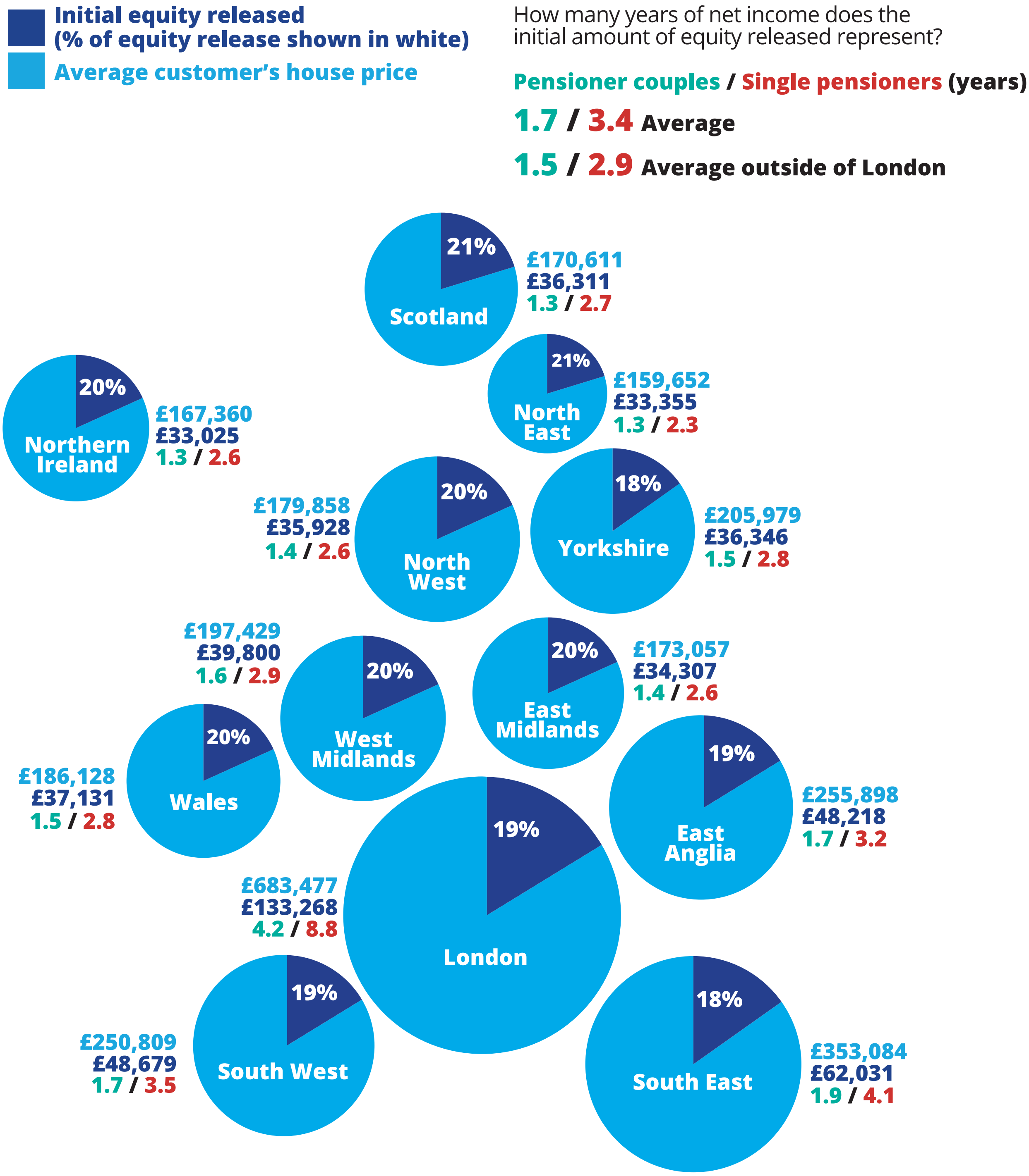
Anne comments: "We'd heard some bad stories about equity release in the past but we could not be happier with the service we've received. Our adviser fully put our minds at rest and LV= were hugely efficient in advancing our loan, providing us with clear advice and instruction. We're thrilled we decided to take out equity release, especially as we had the support of our children.

"With equity release we're able to fully enjoy our retirement without fear of how to meet any unexpected costs. It also gives us the luxury of being able to visit our family in Australia when we like, something we would have struggled to do otherwise. There is also the added peace of mind that should we need to, we have guaranteed reserves we can tap into. We've even recommended equity release to our daughter-in-law's parents to give them the security for retirement that we enjoy."

Regional trends

Comparing UK regions, customers in London, East Anglia and the South typically have the most housing equity to begin with and release the largest amount of equity at the outset of their plan, either as a lump sum or as the first instalment of a drawdown plan.

Outside London, the initial amount of equity released (£40,467) is equivalent to 18 months of net income for pensioner couples or almost three years of net income for single pensioners.



Source: *Equity Release Council / Office for National Statistics - pensioner income series*

Personal borrowing rates tracker

- **Fixed mortgage rates rise nearly seven times as much as equity release rates in H1 2014**
- **Equity release remains between 2.5-3 times cheaper than credit cards or overdrafts**
- **Credit card and personal loan pricing falls – but income and age restrictions can rule out older borrowers, both for these products and for residential mortgages**

Equity release rates differ from residential mortgage rates (see boxout) and one of the impacts of this is that equity release pricing has avoided the same level of increases seen among fixed rate mortgages so far in 2014. While the typical fixed rate mortgage rate rose by 20 basis points (bps) in the first half of the year, equity release rates rose by just 3bps.

	January 2014	June 2014	Change
Overdrafts	19.54	19.66	+12
Credit cards	18.17	17.36	-81
Personal loans - £5k	9.89	9.78	-11
Equity release	6.36	6.39	+3
Personal loans - £10k	5.57	5.23	-34
Standard Variable Rate mortgages	4.41	4.36	-5
Lifetime tracker mortgages	2.96	2.76	-20
Fixed rate mortgages - 75% to 90% LTV	3.25	3.45	+20

Source: *Moneyfacts / Bank of England household interest rates. Rate changes measured in basis points (bps).*

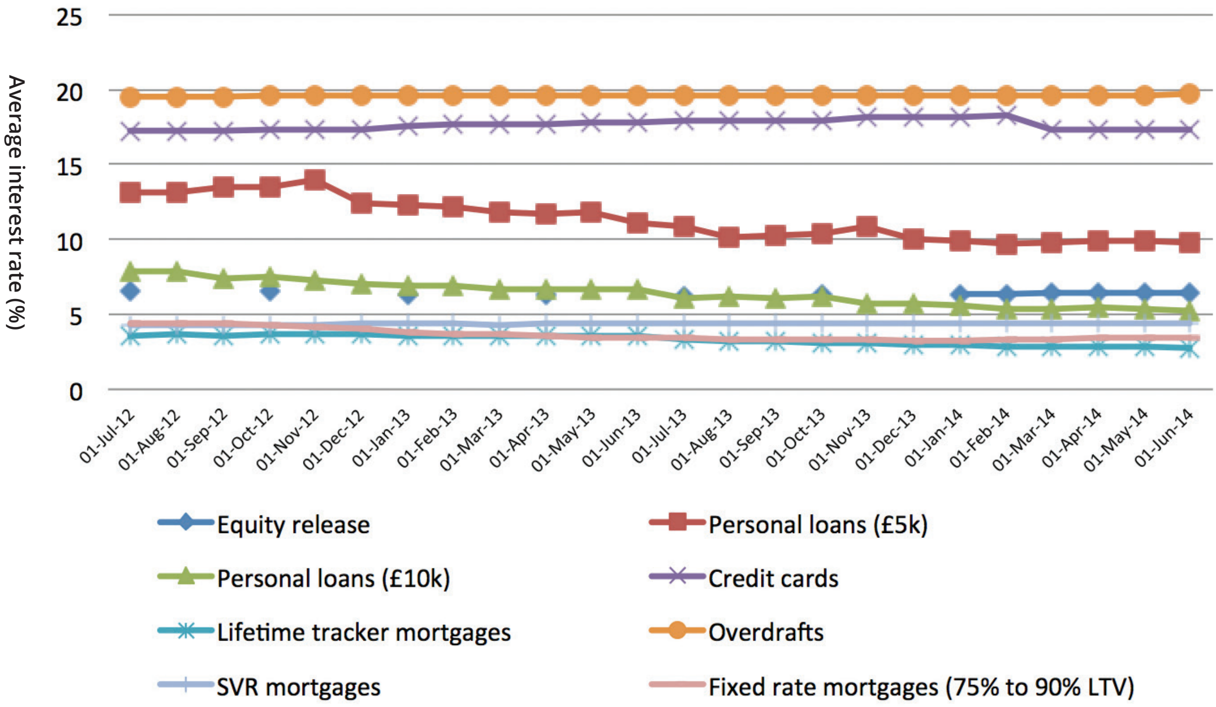
Note: *average equity release rates exclude products which are not recognised by The Council and do not offer protections such as the right to tenure and no negative equity guarantee. The Council's current provider members are Aviva, Bridgewater, Hodge Lifetime, Just Retirement, LV=, more 2 life, Newlife, Partnership, Pure Retirement and Stonehaven*

Rates for equity release products remain three times cheaper than overdraft rates, which have climbed by 12bps since January. Other personal borrowing rates have been on a downward trajectory, with credit card pricing falling the furthest: 81bps in the space of six months.

Nonetheless, credit card rates remain more than 2.5 times more expensive than equity release rates, with many older borrowers barred from using this type of finance because of income requirements. The same is true of personal loans: despite £10,000 loan pricing having come down by 34bps in the first half of the year, many best buy options have age restrictions in place.

The advent of greater income and affordability checks for residential mortgages via MMR has also seen borrowers' options squeezed in this area. Numerous mortgage lenders apply upper age limits to their mortgage terms, and all lenders now need to account for expected retirement income for mortgages that stretch beyond people's expected retirement age. This also applies for equity release products which offer interest repayment options.

Personal borrowing rates tracker



Equity release and residential mortgage rates

Unlike residential mortgages, equity release products are designed as lifetime policies and funded by different means which are significantly impacted by the yields on government bonds (gilts).

As well as taking factors such as life expectancy and medical and health status into account – which are more of a factor for older borrowers – equity release providers also offer greater consumer protections which is reflected in the rates they apply.

For example, the no negative equity guarantee sees providers take on the risk of falling property prices, to ensure that customers will never owe more than the value of their homes. Customers also retain the guaranteed right to tenure for the remainder of their lives, which residential mortgages do not offer.

Appendix

About the Equity Release Council

The Equity Release Council (The Council) was formed in May 2012 to create a united voice for the industry and build on the legacy of Safe Home Income Plans (SHIP), which was founded in 1991 as the trade body for equity release product providers.

Over two decades later, the robust standards of consumer protection upon which SHIP was founded have underpinned the development of a flourishing sector which has served over 300,000 consumers, lent almost £14bn and enjoys exceptional customer satisfaction rates.

Since the expansion and rebranding of SHIP as The Council, its membership is now nearly 350 and includes advisers, solicitors, surveyors, providers, intermediaries and other industry professionals – each committed to support the equity release Code of Conduct and related standards.

The Council and its members work to ensure customers can safely use this form of borrowing to support their retirement income, and to boost public and political awareness of equity release as a solution to many of the financial challenges affecting people over the age of 55 across the UK.

Find out more about equity release product features by visiting www.equityreleasecouncil.com/what-is-equity-release

Consumer protections

Equity release customers enjoy three levels of protection, encompassing a structured financial advice process, face-to-face legal advice and product safeguards set out in the SHIP standards since 1992.

The Council's Standards Board oversees the modern Code of Conduct, standards and principles which members sign up to, instilling confidence in their products and advice. This ensures customers:

- retain **the right to remain in their property for life**, provided the property remains their main place of residence.
- receive a 'no negative equity' guarantee so they will **never owe more than the value of their homes or leave any debt behind** – regardless of changing property prices.
- receive **fair, simple and complete presentations** of the plans they are considering taking out – including any benefits and limitations of the product, and obligations they must adhere to. This includes **an outline of all potential and associated costs.**
- have the right to choose an independent **solicitor of their choice** to carry out associated legal work.
- have the right to **move their plan to another suitable property** without being subject to any financial penalty.
- receive a certificate recognised by The Council and signed by their solicitor, which **clearly states the main cost to the householder's assets and estate** – for example, how the loan amount will change or whether part or all of the property is being sold.

Methodology

The Equity Release Market Report is designed and produced by The Wriglesworth Consultancy on behalf of the Equity Release Council. It uses aggregated data supplied by members of The Council to create the most comprehensive view of consumer trends and product uptake across the equity release industry.

This second edition combines data from 90% of new equity release plans taken out in the first six months of 2014, alongside historic data from over 37,000 new plans up to 2013. All figures quoted are aggregated for the whole market and do not represent the business of individual members. Since the first edition, some figures for 2013 have been historically adjusted thanks to increased availability of data and enhanced methodology.

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

Contact

Find out more about the Equity Release Council, its members and the products and services they provide by visiting **www.equityreleasecouncil.com**

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