Equity Release Council

Spring 2018 Market Report

EQUITY RELEASE COUNCIL

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Foreward

The Spring 2018 Equity Release Market Report, which marks my first as Chairman of the Equity Release Council, comes at a pivotal time for the industry. Annual lending activity by our members has surpassed £3billion for the first time and customer numbers reached 67,000 in 2017. Property wealth is increasingly recognised by people as a safe and sought-after source of retirement finance, with the market attracting twice as many new customers as it was five years ago.

Our analysis of market trends not only shows growing interest from consumers, but an increasingly flexible range of products enabling them to unlock some of the value tied up in their homes. The range of product options available to equity release customers has grown 25% year-on-year, providing more choice to underpin a robust and competitive market.

Looking forward, we expect the need for new sources of income in retirement will continue to grow as many people will be unable to rely on pressured pension pots. The recent Housing for Older People Report[1] from the Communities and Local Government Select Committee highlighted this very need. We warmly welcome its recommendation that financial guidance should be enhanced to help older people make fully informed decisions on their financial futures, based on all their available options – including equity release.

Findings released by the Office for National Statistics (ONS)[2] earlier this year showed that British people have amassed £4.6trillion in property wealth and see property as second only to employer pensions as the safest way to save for retirement. Property is often a household's largest asset and it is vital more people understand its possibilities not only to provide income in later life or pay off debts, but also to provide a 'living inheritance' for family members and help fund care needs. Helping young people get on the housing ladder and paying for social care are at the top of the political agenda, and we look forward to strongly advocating for the role equity release can play in helping to meet these policy challenges.

The Council's aim is for consumers to see equity release as a safe, mainstream and accessible financial solution to their needs in later life and retirement plans. We want the industry to see The Council as the authoritative trade body that fairly represents and facilitates the growth of a safe equity release market by helping to create the conditions which enable the market to develop effectively. Our aim is to be the influential voice regarding the use of housing wealth in later life and retirement planning to the government, voluntary and public sectors, and regulatory, consumer and professional bodies.

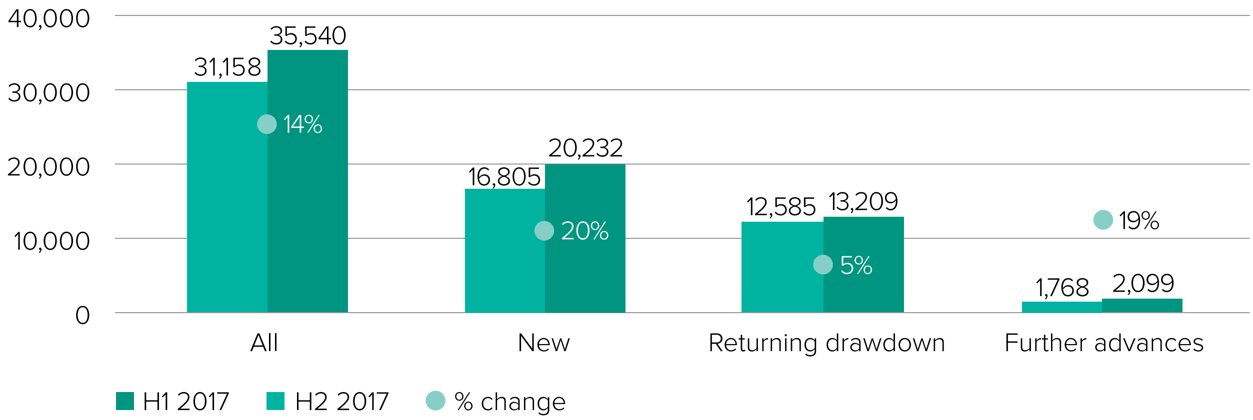
As Chairman, I look forward to guiding these efforts to lead a consumer focussed equity release market.

David Burrowes, Chairman of the Equity Release Council

[1]Communities and Local Government Committee report, *Housing for Older People*, February 2018

[2]Office for National Statistice, *Wealth and Assets Survey*, February 2018

Equity release customer numbers – H1 2017 to H2 2017



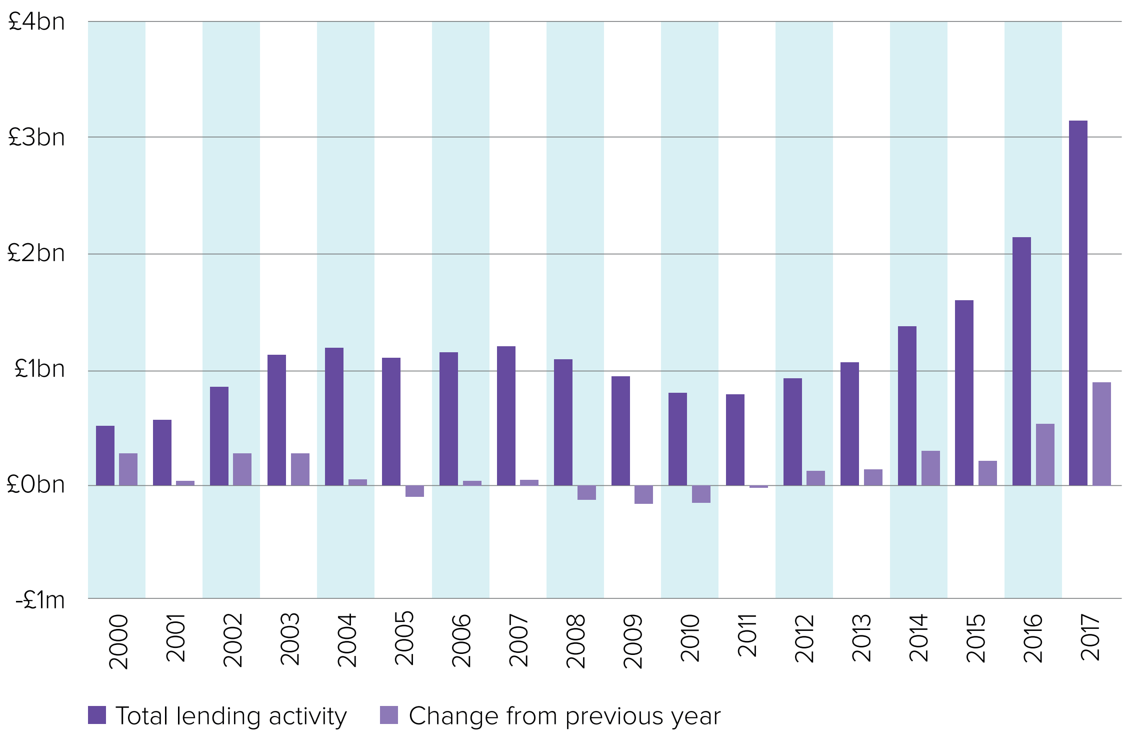
Some customers may return and drawdown on multiple occasions

Annual growth exceeds the entire size of the market in 2010 and 2011

In reaching a record £3.06bn for 2017, annual equity release lending activity across all customer groups increased by £909m compared with 2016 (£2.15bn). This growth alone was more than the size of the entire market in 2010 (£804m) and 2011 (£789m), and almost on a par with total activity in 2012 (£926m).

Total lending has almost doubled in the last two years – increasing 90% from £1.61bn in 2015 – and almost trebled in the last four years, rising 185% from £1.07bn in 2013. Recent research by Legal & General suggests every £1 of housing wealth released generates £2.34 for the UK economy, increasing gross UK output by £7.1bn overall and supporting over 37,000 jobs[3].

Total equity release lending activity 2000-2017



[3] Legal & General, *Silver Spenders*, February 2018

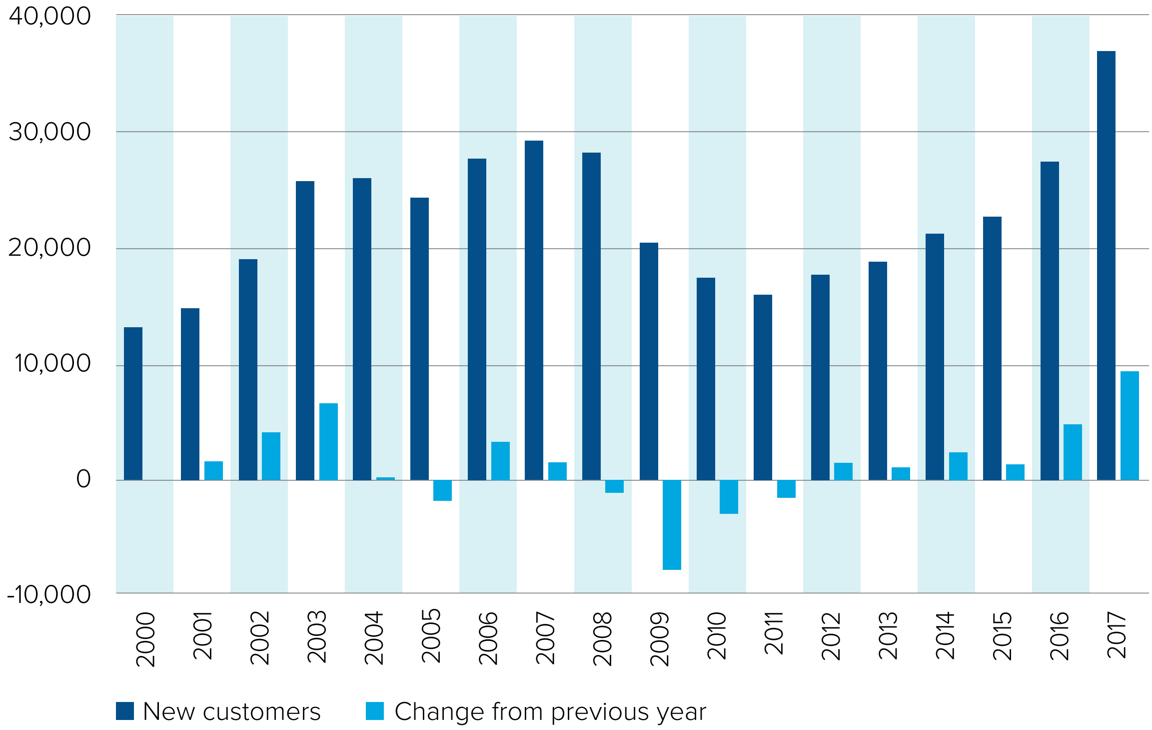
Market activity

Equity release attracting twice as many new customers as five years ago

The volume of new customers taking out equity release plans in 2017 was almost 10,000 more than in the previous year, as the number of people unlocking housing wealth for the first time increased by a third.

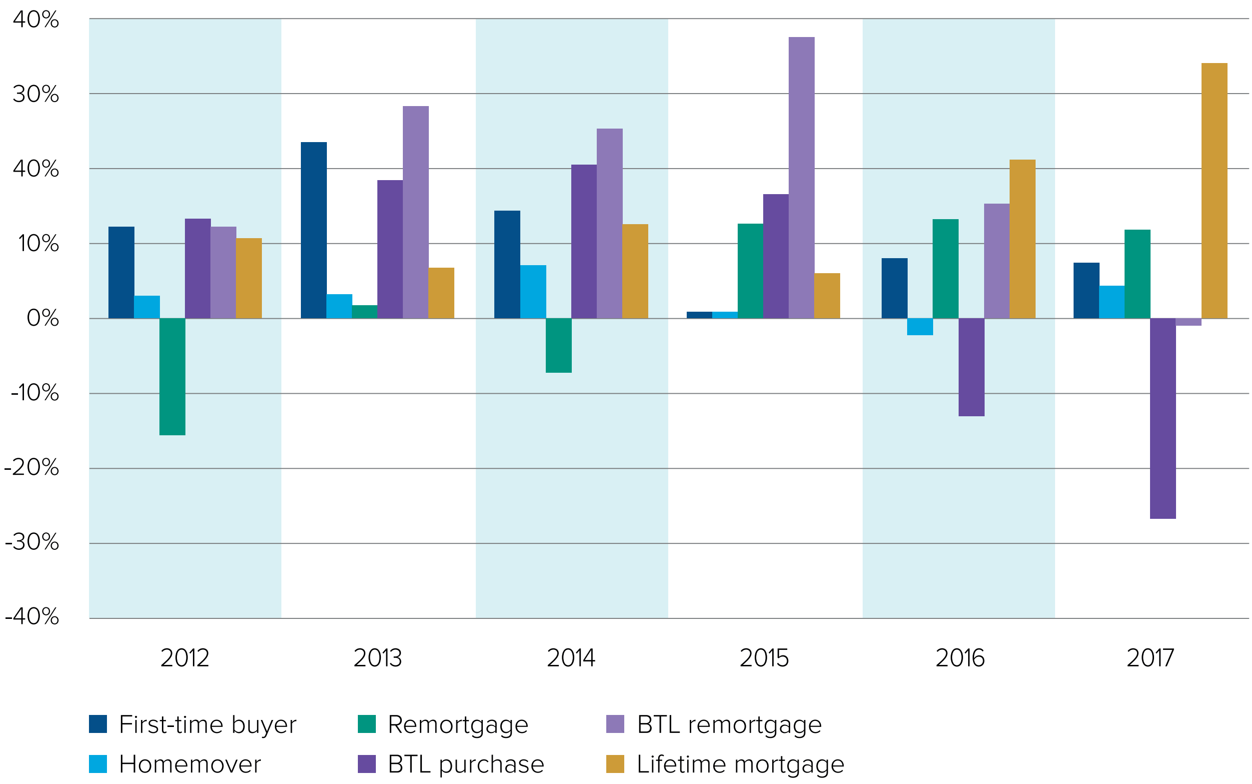
As a source of retirement finance, equity release is now helping more than twice as many new customers as it was five years ago. More new plans were agreed in the second half of 2017 than in the whole of 2012.

New equity release customers 2000-2017



All strands of equity release activity – across new customers, returning drawdown customers and further advance customers – grew in the second half of the year compared with the first, with the 14% rise in overall customer numbers driven by a 20% increase in new customers and a 19% increase in further advances. Returning drawdown activity was more consistent, with the number of returning customers rising 5% from 12,585 in H1 to 13,209 in H2.

Annual change in new customer numbers



Source: Equity Release Council/UK Finance

The continuing progress of equity release towards the mainstream of financial services meant the ratio of new mortgage customers to new lifetime mortgage customers continued to evolve in 2017. Ten years ago, there were 88 first-time buyers, remortgagers, homemovers and new or remortgaging buy-to-let borrowers in the market for every new lifetime customer. That number fell to 56 in 2012 and has since fallen again to 38 in 2017 as market dynamics have evolved and lifetime mortgage customers have increased in number.

The comparison shows that encountering consumers with a potential interest or need for lifetime mortgages is becoming an increasingly common experience for intermediaries. It therefore emphasises the importance of accessible advice, robust standards and clear signposting between related areas of financial services to support consumers' decision-making.

Ratio of new mortgage customers to every new lifetime mortgage customer

	2007	2012	2017
First-time buyers	13	12	10
Homemovers	24	19	10
Remortgages	38	18	12
BTL purchases	7	4	2
BTL remortgages	6	3	4
Total	**88**	**56**	**38**

Source: Equity Release Council/UK Finance

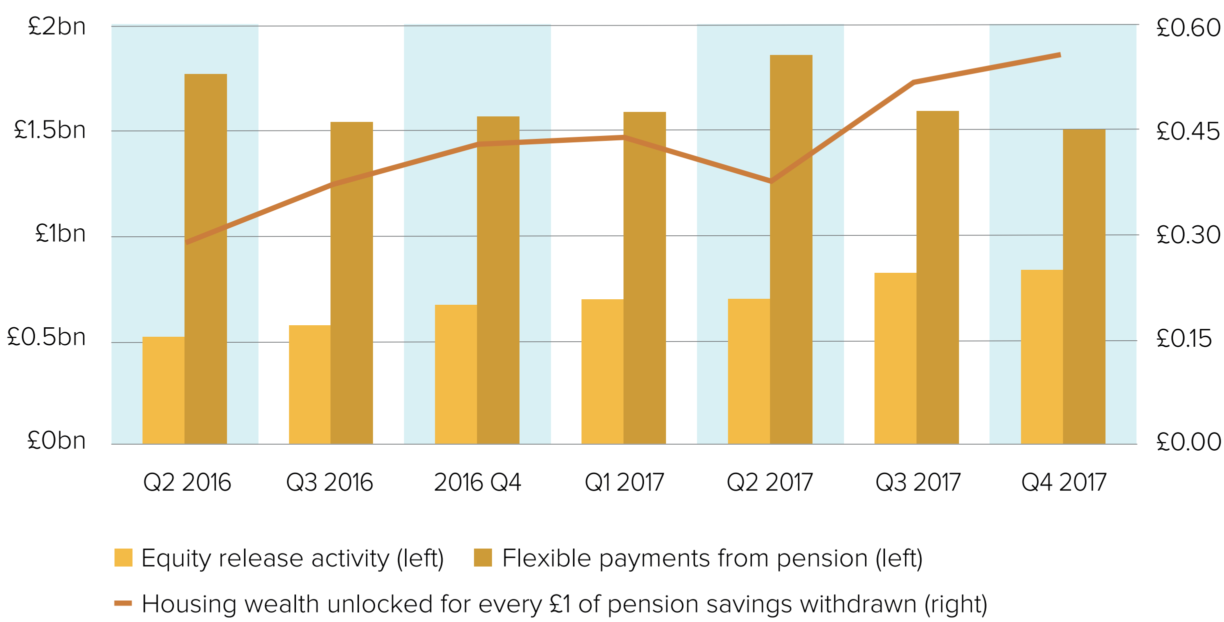
Market context

Housing wealth withdrawals grow compared to flexible pension payments

Growing interest in the equity release market from consumers is a sign that more homeowners consider housing wealth to be a potential source of finance in later life, and are finding an increasingly flexible range of products enabling them to unlock some of its value.

One sign of this shifting mindset is that, back in Q2 2016, just 29p of housing wealth was unlocked by over-55s for every £1 of savings accessed via flexible pension payments following the introduction of 'pension freedoms' a year earlier. This rose to 38p of housing wealth for every £1 of pension payments over the whole of 2016, climbing again to 47p during 2017 and reached 56p in Q4 2017, as property becomes increasingly important as a supplementary source of retirement finance.

Comparing equity release and flexible pension payments



Source: Equity Release Council lending activity, HMRC flexible payments from pensions

Lifetime lending sees fastest growth within overall mortgage market

Growth in lifetime mortgage customer numbers also outpaced other areas of the mortgage market in 2017 for a second successive year. The figures highlight the growing demand for advice on these products and also the need to ensure customers understand the range of options open to them as they progress through the later years of their working lives and into retirement.

Annual growth in remortgage numbers dropped from 14% in 2016 to 12% while the first-time buyer recovery saw numbers grow 8% year-on-year for a second year. The market for homemovers returned to growth in 2017 with numbers up 5% from 2016. Nonetheless, the rise in lifetime mortgage activity was greater still, with 2016's increase of 22% in new customers followed by a 34% increase in 2017.

Personal borrowing rates tracker

Average product rates (%)	Jan-16	July-16	Jan-17	July-17	Jan-18	Six month change	Annual change
Overdrafts	19.67	19.68	19.71	19.71	19.71	0	0
Credit cards	17.96	17.94	17.96	17.96	17.95	-0.01	-0.01
Personal loans (£5k)	9.11	9.27	9.45	8.04	8.32	+0.28	-1.13
Equity release	6.2	5.96	5.45	5.3	5.14	-0.16	-0.31
5 year fixed rate mortgage - 95% LTV	4.73	4.65	4.58	4.67	4.50	-0.17	-0.08
SVR mortgages	4.56	4.52	4.23	4.51	4.29	-0.22	+0.06
Personal loans (£10k)	4.29	4.15	3.69	3.79	3.83	+0.04	-0.14
2 year fixed rate mortgage - 95% LTV	3.93	3.86	3.62	4.07	3.81	-0.26	+0.19
10 year fixed rate mortgage - 75% LTV	3.27	3.05	2.93	2.77	2.66	-0.11	-0.27
5 year fixed rate mortgage - 75% LTV	2.73	2.52	2.22	1.97	1.99	+0.02	-0.23
2 year variable mortgage - 75% LTV	1.68	1.72	1.49	1.39	1.69	+0.30	+0.20
3 year fixed rate mortgage - 75% LTV	2.18	2.08	1.75	1.8	1.68	-0.12	-0.07
2 year fixed rate mortgage - 75% LTV	1.9	1.72	1.44	1.41	1.53	+0.12	-0.09

Source: Moneyfacts/Bank of England. Rate changes measured in basis points (bps). Average equity release rates exclude products which do not meet the full Equity Release Council product standards.

Product features explained

- **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.

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

Range of product options grows 25% year-on-year

Growing demand for equity release in recent years has been met by greater competition from providers. This is reflected by the amount of product options available to consumers, which grew from 69 in January 2017 to 86 in January 2018. This increase of 25% in the last 12 months is symbolic of the sustained increase in choice and flexibility.

Competition has in turn driven greater innovation in the market. Over two thirds (70%) of product options now offer consumers the choice to make ad-hoc, penalty-free voluntary or partial repayments of their loan, to minimise the build-up of interest and even reduce the loan over time.

The last year has also seen an increase in products which offer fixed early repayment charges (ERCs). Inheritance protection – which allows customers to ring-fence part of their housing wealth as a guaranteed minimum amount to pass on to beneficiaries, regardless of the total interest accrued – is now offered by almost half of products available, while two in five also offer downsizing protection.

Product options and features

	% of total product options with this feature - Jan 2018
Voluntary/partial repayments	70%
Drawdown facilities	48%
Inheritance guarantee	49%
Fixed ERC	53%
Downsizing protection	42%
Sheltered/age restricted accomodation	41%
Interest payments	9%
Total number of product options available	**86**

Source: product data supplied by Key Retirement

Average rates continue to fall despite base rate rise

The average interest rate for equity release products as of January 2018 was 5.14%, as pricing continued to fall despite the Bank of England base rate rising from 0.25% to 0.5% in November 2017. Over the six months from July 2017, average rates fell by 0.16% and by 0.23% over the 12 months from January 2017, at a time when many other personal borrowing products have increased in price.

Significantly, comparing average rates across all customers rather than across all products shows that the average equity release customer pays noticeable less interest than the average product rate suggests: 4.44% in H2 2017. While the average rate for new customers taking lump sum plans in this period was 5.31%, the average rate for new drawdown customers was 4.17% – lower than the average SVR rate, with significantly more product safeguards and protections in place.

Single plans are much more common among women than men: 27.3% of new lump sum customers were females taking single plans in H2 2017 compared to 15.4% who were single males. This is even more pronounced among new drawdown customers: 29.1% were female taking single plans compared to 16% who were male. This potentially highlights a greater need for additional income sources among women in later life, as they often retire with less in pension savings[5] and have longer life expectancies, therefore needing additional financial support backed by advice that is accessible and affordable.

Type of new plan agreed

		Type of plan		
	Time period	Jointly held plans	Single plans - male	Single plans - female
New drawdown customers	H1 2017	59.7%	12.9%	27.4%
	H2 2017	54.9%	16.0%	29.1%
New lump sum customers	H1 2017	60.1%	15.8%	24.1%
	H2 2017	57.2%	15.4%	27.3%

Average loan-to-values broadly stable despite more equity at customers' disposal

Reflecting the general upwards trend in property prices in the UK since 2014, which has increased the housing wealth at people's disposal, the average house price of new equity release customers has steadily increased over the last three years, rising 28% overall among those taking drawdown plans and 30% among those taking lump sum plans.

Annual house price growth in H2 2017 was 7% among new drawdown customers and 9% among lump sum customers, down from 13% and 12% respectively a year earlier. While this slowdown may reflect the recent cooling of the housing market, it suggests older homeowners are still exploring equity release with more housing wealth at their disposal.

Average house price of new customers

Average house price	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017
New drawdown customers	£283,836	£300,836	£304,340	£301,971	£319,600	£341,758	£358,392	£364,100
New lump customers	£247,745	£243,535	£242,476	£264,397	£282,668	£296,022	£306,414	£321,335

Across both product types, the average customer continues to draw on proportionate amounts of housing wealth compared to the 50%+ maximum loan to values (LTV) available on the market. This may show that they are treating equity release as a supplement to other income rather than the sole source, or simply moderating their withdrawals of housing wealth.

In H2 2017 the average LTV among new lump sum customers was 31.5%, broadly consistent with the 31.1% seen in the first half of the year. Similarly, new drawdown customers had an average LTV of 27.4%: a modest increase from 26.2% in H1 2017.

Average withdrawals and LTV of new customers

	New drawdown plans		New lump sum plans	
	H1 2017	H2 2017	H1 2017	H2 2017
Average house price	£358,392	£364,100	£306,414	£321,335
Average initial advance	£59,959	£63,569	£95,386	£101,203
Average extra reserves	£34,091	£36,061	n/a	n/a
Average total LTV	26.2% (16.7%+9.5%)	27.4% (17.5%+9.9%)	31.1%	31.5%

[5]Scottish Widows, *Women in Retirement Report,* 2017

New customer trends

Older customers increase their share of new plans agreed

Drawdown lifetime mortgages continue to be more popular with older customers than lump sum plans, as well as making up three quarters (76%) of all new plans agreed in H2 2017. The average age of drawdown customers (71.7 in H2 2017) remains consistent with recent years.

The average age of new lump sum customers has climbed back to 68.6 in H2 2017, having dipped following the Mortgage Market Review implementation (April 2014) and introduction of pension freedoms (April 2015). Looking ahead, The Council will seek to monitor how these figures are impacted by the anticipated 40,000 interest-only mortgages set to reach maturity every year until 2032[4], as some of these homeowners look to equity release as a solution to remain in their homes.

Average customer ages	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017
New drawdown plans	71.6	71.6	71.5	70.9	71.2	71.7	71.5	71.7
New lump sum plans	68.8	67.6	67.7	67.2	67.7	68.2	68.0	68.6

One in four (25.3%) homeowners taking out new drawdown plans were aged 75-84 in H2 2017, the highest since tracking began having been 23.2% in H1 2016. This trend suggests that more people are starting drawdown plans later in life, potentially to provide a new source of income as others run out or boost existing sources as circumstances change. The percentage starting drawdown plans at 55-64 has fallen from 15.2% to 13.6% over the same period.

Customers aged 55-64 also accounted for the smallest share (31.9%) of new lump sum lifetime mortgages since tracking began. This may be impacted by people working for longer and waiting until later in life to dip into their housing wealth. Over-75s made up 15.5% of new lump sum plans taken out – the highest share seen to date.

Age breakdown of new drawdown and lump sum plans

New drawdown plans	H1 2016	H2 2016	H1 2017	H2 2017
Aged 55-64	15.2%	13.9%	14.7%	13.6%
Aged 65-74	58.1%	57.5%	56.7%	57.7%
Aged 75-84	23.2%	24.4%	25.1%	25.3%
Aged 85+	3.4%	4.2%	3.5%	3.4%

New lump sum plans	H1 2016	H2 2016	H1 2017	H2 2017
Aged 55-64	33.2%	35.9%	33.4%	31.9%
Aged 65-74	52.6%	48.7%	51.2%	52.6%
Aged 75-84	12.3%	11.8%	13.6%	13.5%
Aged 85+	1.9%	3.6%	1.8%	2.0%

Growth in single plans taken out by female customers

The Council's data suggests single plans taken out by female customers are making up a growing part of the equity release market. These rose from 27.4% of all new plans in H1 2017 to 29.1% in H2 2017 for drawdown products, and from 24.1% to 27.3% for lump sum products. Single males also accounted for more drawdown plans in H2 than H1 (16.0% vs. 12.9%) as the percentage of jointly held plans decreased.

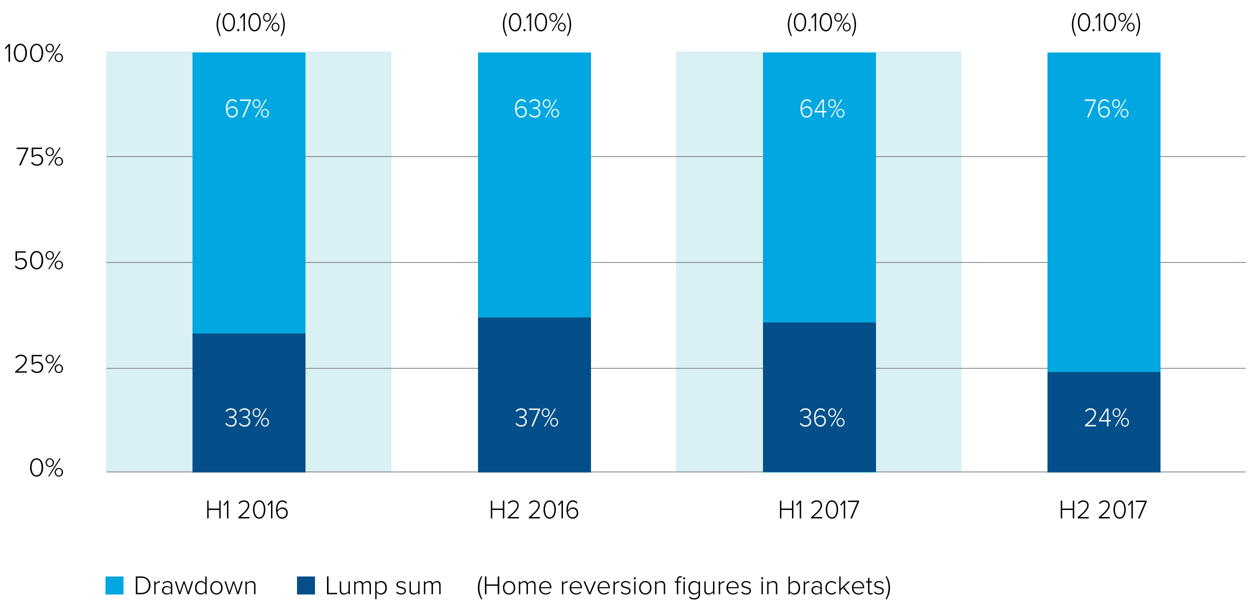
[4]Experian, *residential interest-only mortgages - volumes, concentrations and maturity horizons*, 2013

Further advance activity shifts towards drawdown products

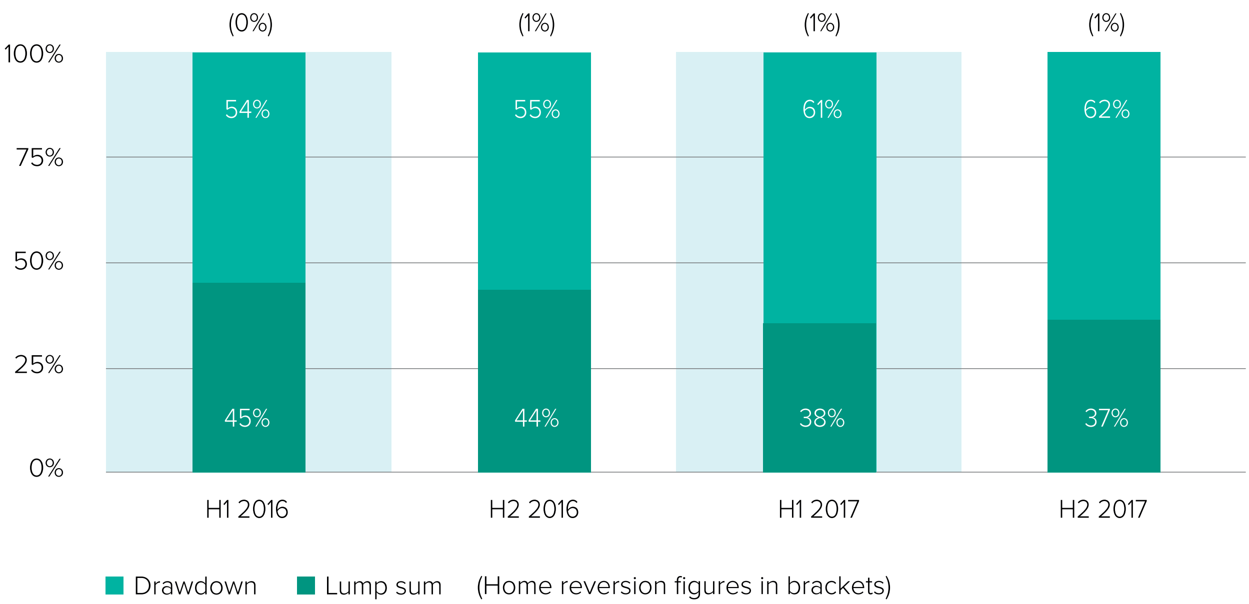
The number of customers seeking further advances grew 19% in H2 2017 compared with H1, and by 27% compared with a year earlier in H2 2016. In both cases, this was slightly below the growth rate of new customer numbers and – with just 2,099 customers taking further advances between July and December – they were outnumbered ten to one by new customers, consistent with levels seen since H1 2016.

As with new customers, further advance activity is increasingly focusing on drawdown products rather than lump sum products. This may be a legacy of drawdown having been the predominant choice for over half of new customers since 2008, having been introduced to the market a few years previously. Nevertheless, one in three further advance customers still opted for lump sum products (37%) in H2 2017 compared with just one in four new customers (24%).

New customer product choices



Further advance customer product choices



Returning customer trends

Drawdown customers reserving enough for over three additional instalments

The number of returning customers in H2 2017 rose 5% compared with the first half of the year, from 12,585 to 13,209, with an average age of 73.8 years. A total of 13,824 drawdown instalments were taken between July and December, indicating that a small number of customers (around 600) made multiple withdrawals during this period.

The popularity of drawdown as a way for homeowners to repeatedly dip into their equity reserves suggests that housing wealth is playing an increasing role in providing a regular boost to retirement income they receive from other sources.

Per drawdown instalment, the average amount taken rose 4% from £10,331 in H1 2017 to £10,745 in H2 2017. With the average new drawdown customer agreeing reserve facilities of £36,061 (as shown earlier), this therefore leaves them with enough to make at least three average-sized drawdowns of housing equity beyond their initial advance over the duration of their plan.

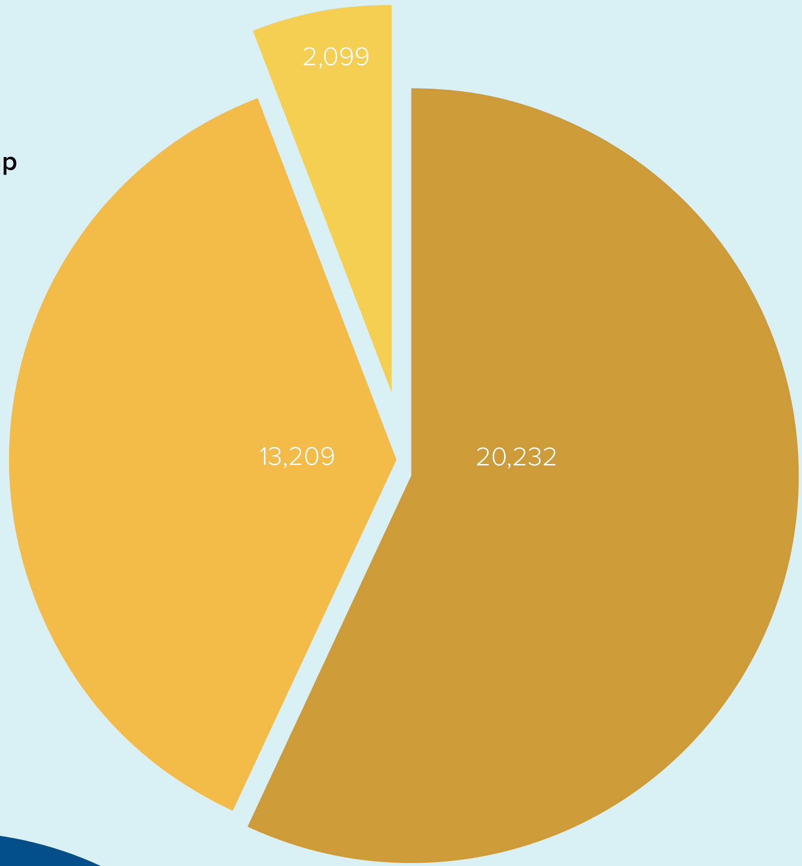
Comparing drawdown amounts across new and returning customers

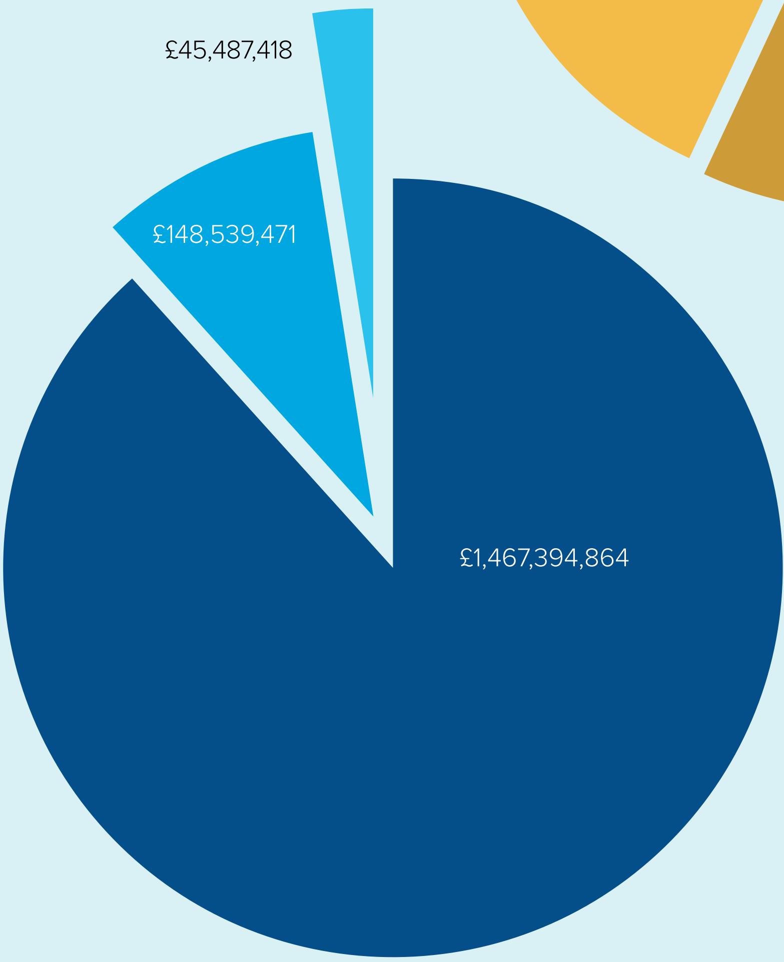
	Average initial advance on new drawdown plans	Average extra reserves on new drawdown plans	Average returning drawdown withdrawal	Number of average withdrawals possible from extra reserves
H2 2017	£63,569	£36,062	£10,745	3.36
H1 2017	£59,959	£34,091	£10,331	3.30

The 20,232 new customers in H2 2017 outnumbered the annual totals from 2010 to 2013 – representing an increase of 29% from H2 2016. The number of existing drawdown customers in H2 2017 who returned to dip into their agreed reserves (13,209) was not far removed from the number of new drawdown customers (15,407). This demonstrates the appeal of housing wealth as a source of funds that people can tap into over an extended period of time. Lending via new plans made up 88% of all lending activity in H2 2017, which was consistent year-on-year.

Equity release plans by customer group

- New
- Returning drawdown
- Further advances/releases





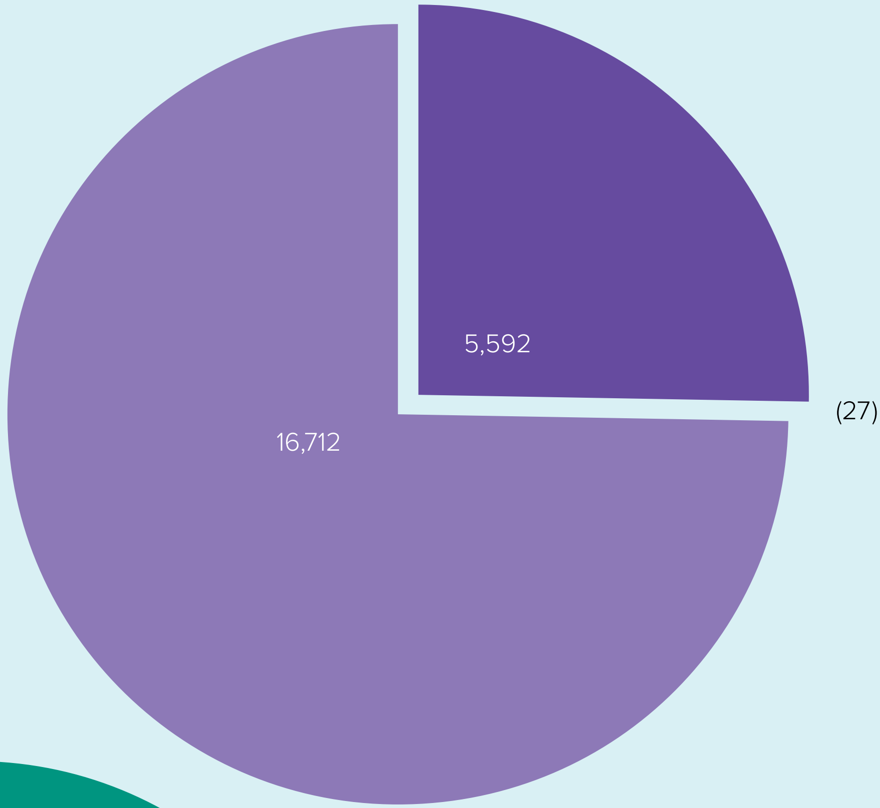
Equity release lending by customer group

- All new plans
- Drawdown from existing plans
- All further advances/ releases

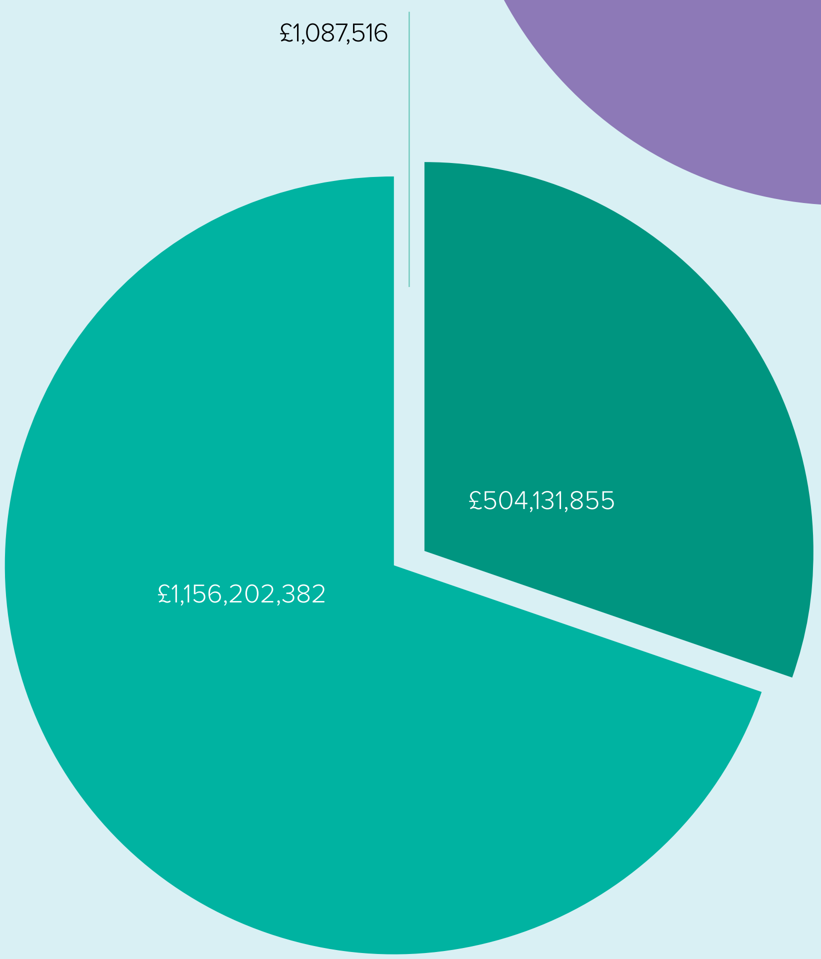
H2 2017 at a glance

The number of drawdown plans agreed in H2 2017 – including new plans and further advances – was up by 53% from H2 2016 as the market continues to shift towards this product type. Linked to this, the number of lump sum plans agreed was down 13% over the same period. As a result, 70% of all lending activity in H2 2017 (£1.15bn of £1.66bn) was via drawdown products. This was the highest share since H1 2008 when 74% of lending was through drawdown plans.

Equity release plans by product type (new and further advances)



Equity release lending by product type



About the Equity Release Council

The Equity Release Council is the representative trade body for the equity release sector with over 200 member firms and 720 individuals registered, including providers, regulated financial advisers, solicitors, surveyors and other professionals.

It leads a consumer-focused UK based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products. Since 1991, nearly 420,000 homeowners have accessed over £22bn 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.

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 2018 using data from new plans taken out in the second half of 2017, alongside historic data. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms. Annual changes are rounded to the nearest percentage point while customer and lending data is reported to one decimal place.

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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