Equity Release Council

Autumn 2023

Market Report

Navigating the higher interest rate environment

Key findings

1. The total value of UK property remains high by historic standards, despite a dip from a record £7.37tn last Autumn to £7.20tn in June. Discounting mortgage debt, the average UK home contains equity of £222,526 – a vital resource when nearly 3m people will reach state pension age this decade without the savings to afford a moderate standard of living in retirement.

2. Across the whole mortgage market, capital repayments have increased as mortgage holders look to manage the impact of higher interest rates. In the lifetime mortgage space, the average voluntary partial repayment made in H1 2023 was £2,527. Repaying this amount every year would help the average customer to save nearly £38,000 over the course of a decade.

3. The gap between lifetime and residential mortgage rates has narrowed over the last 18 months with Bank of England rate rises hitting the residential market harder. While the gap widened slightly at the start of September, lifetime mortgage rates remain more competitive in relative terms than they were a year ago, despite rates having risen.

4. The equity release product range has continued its gradual recovery during the first half of 2023. Over 250 plans are now available, up from 163 at the start of the year, with the vast majority giving customers fixed early repayment charges in the style of fixed-rate residential mortgages.

5. New customer numbers were 45% lower in H1 2023 than a year earlier as providers, advisers and customers alike reset their expectations in light of the higher interest rate environment. June 2023 saw the number of new plans agreed reach its highest point of the year to date.

6. New customers withdrew smaller amounts of equity, with average loans falling from around £130,000 to £100,000 with an average loan-to-value of around 25%, compared with 31% a year earlier.

7. There was a notable shift in behaviour among customers agreeing further advances on existing loans, with 76% choosing a lump sum over drawdown, compared with 52% a year earlier, and average loan sizes shrinking from around £30,000 to £20,000. More further advances were granted in H1 2023 than in H1 2022, but fewer returning drawdowns were made.

8. The Council and its members have been undertaking significant work to reinforce advice standards and ensure clear customer communications, in line with the new Consumer Duty.
The Council supports the FCA's engagement with the lifetime mortgage market and shares the regulator's commitment to ensuring customers are fully informed and advised about their options.

David Burrowes, chair of the Equity Release Council, comments:

The equity release market has shown a strong resolve to keep an important lifeline open to customers during a challenging period for the UK economy. People are taking smaller loans and a smaller percentage of their available equity. However, the stark outlook for people's pension prospects means property wealth will remain a vital part of the equation to avoid a cost-of-retirement crisis.

"While mortgage pricing has jumped across the board, lifetime mortgage rates have weathered the storm better than some residential mortgages. The security and flexibility enshrined in Council standards gives people the ability to make voluntary partial repayments without the threat of their home being repossessed if repayments become unaffordable.

"Even before the current cycle of rising interest rates, many homeowners were facing the reality of carrying mortgage debt with them into later life. That is even more likely now, which is why we must double down on our work with industry and regulators to ensure all homeowners understand all their options.

"We are completely focused on ensuring that customers receive the right advice at the right time so they can make well-informed decisions, in line with the Consumer Duty. No-one should turn a blind eye to equity release as an option for their later life financial planning, and it's important they look to Council members to weigh up its practical benefits against all potential alternatives.

Spotlight

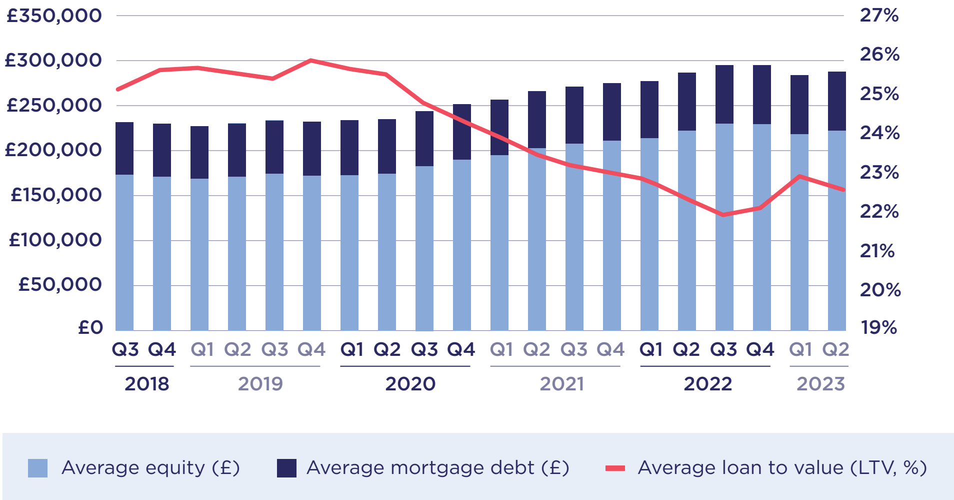
Households treading water with mortgage repayments

National house prices have softened in the first half of 2023, with the annual growth rate dropping from 8.1% in December to 1.7% in June. As a result, the total value of UK private property has dipped from a record £7.37tn last Autumn to £7.20tn in June, which is nonetheless high by historic standards.

Mortgage holders have responded to higher interest rates by repaying unprecedented amounts of capital via regular monthly repayments or overpayments. These have totalled more than £21bn per quarter since Q4 2022, up from £17bn pre-pandemic.

Despite this, the UK's total mortgage debt has remained steady so far this year at £1.63tn, with households collectively treading water in the higher interest rate environment. Even so, discounting mortgage debt, the average UK home contains equity of £222,526: significantly more than the average person's pension according to Government data.

Mortgage vs. equity breakdown of the average UK home



Source: Equity Release Council analysis of data from the Bank of England, HM Land Registry and Office for National Statistics

The option to draw on this source of wealth is likely to remain critical to helping more people achieve a moderate or comfortable standard of living in later life.

Government analysis of national savings habits suggests that 12% of all working age people are expected to fall short of being able to afford a 'minimum' standard of living once they retire, with 51% falling short of a 'moderate' living standard and 88% falling short of being able to retire in comfort.

The outlook is even more severe for the 5m working age people who will reach state pension age in the 2020s. Nearly one in seven (14%) are expected to fall short of a minimum standard of living – equivalent to 784,000 people – with 53% or 2.97m on course to miss out on a moderate standard of living.

53%
of people approaching state pension age are on course to miss out on a moderate standard of living

Managing later life borrowing costs

Cost has historically been a key barrier to consideration of equity release. In recent years, the ability to make voluntary penalty-free partial repayments has given customers an extra tool to manage their later life borrowing costs.

This feature has been mandated since March 2022 for all products which meet Council standards, with no associated risk of repossession.

The average voluntary partial repayment made was £2,527 during the first half of 2023. If a new customer with an average sized loan made this level of repayment every year over a 10-year period, they would save £37,845 in total. Over a 15-year period, that saving would increase to £69,305.

How voluntary partial repayments can reduce lifetime mortgage costs

	Cost without voluntary repayments	Cost with voluntary repayments	Saving with voluntary repayments
10 years	£200,966	£163,121	£37,846
15 years	£284,895	£215,590	£69,305

Source: Equity Release Council analysis based on a loan of £100,000 at a rate of 7%

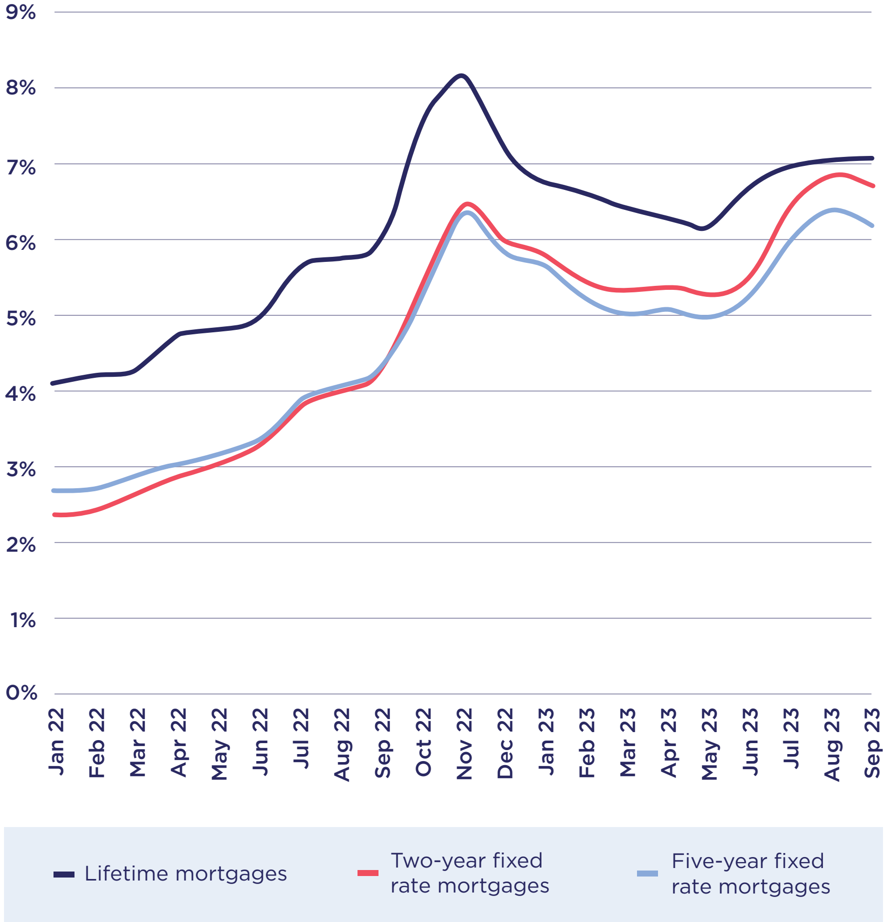
Supply trends

Product availability and pricing

Lifetime mortgages typically carry a price premium compared with residential mortgages, with customers paying higher rates for the benefit of no fixed repayment date, no regular repayment obligations and associated risk of repossession, plus protection against negative equity.

Interest rates have risen across both residential and lifetime mortgage markets since the start of 2022. The temporary spike after last Autumn's 'mini-Budget' has been followed by a slow uptick over the summer months of 2023 as the Bank of England continued its run of rate rises and funding conditions remained tight.

Average rates for lifetime mortgages and fixed residential mortgages



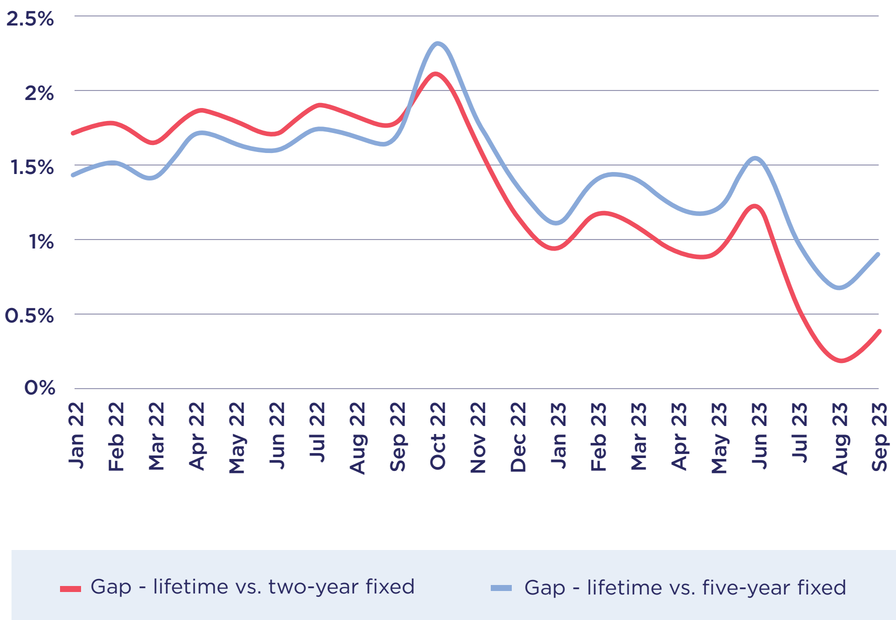
Source: rates data supplied by Moneyfacts Group Plc

Note residential rates quoted are on annual equivalent rates whereas most lifetime mortgage providers use monthly equivalent rate, so there is a statistical difference. Lifetime mortgages have lower maximum LTVs than residential mortgages, relating to the applicant's age and the fact ongoing repayments are optional with interest otherwise rolling up.

However, the uneven effect of rate rises has actually reduced the gap between lifetime and residential mortgage rates over the last 18 months. For most of 2022, the average lifetime mortgage was priced at more than 1.5% above the average two-year or five-year fixed residential mortgage.

Over summer 2023, this rate gap fell to less than 1% compared with five-year products and less than 0.5% compared with two-year products. While this trend reversed slightly at the start of September 2023, lifetime mortgage rates remain more competitive in relative terms than they were a year ago. This improvement is even greater over the long term: in January 2013, the average lifetime mortgage rate was priced almost 3% above the average fixed rate residential mortgage.

Rate gap between lifetime mortgages and fixed residential mortgages



Source: rates data supplied by Moneyfacts Group Plc

Flexible equity release product features

The Council's analysis of data from Moneyfacts Plc shows product availability continuing to improve during the first half of 2023, with 253 products available at the end of August compared with 163 at the start of the year.

According to Key, the vast majority of lifetime mortgages now offer fixed early repayment charges (ERCs) in the style of fixed rate residential loans, while two in three provide downsizing protection so customers can repay their loans in full without any charge if they move to a smaller property.

96%

More than nine in ten products come with fixed early repayment charges (ERCs) which typically decrease to 0% over time on a sliding scale, like fixed-rate residential mortgages

68%

Two in three products provide downsizing protection, so customers can repay their plan with no ERC when moving to a smaller property

57%

Nearly three in five products provide drawdown facilities, so customers can make withdrawals in stages over time to reduce their overall interest costs

41%

More than two in five products are potentially available on sheltered or age-restricted accommodation, subject to lending criteria

24%

One in four products provide inheritance protection, so customers can ringfence a guaranteed minimum amount of property wealth to leave behind

Source: product data supplied by Key, September 2023

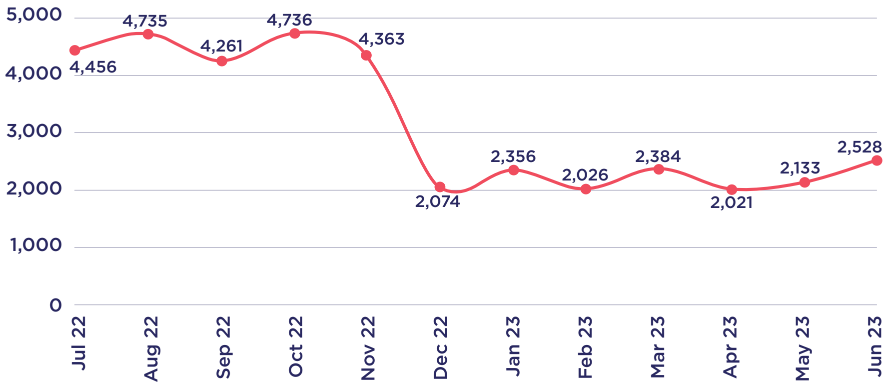
Demand trends

New customer activity

The number of new customers taking out equity release plans dropped noticeably in H1 2023 as people adjusted to the higher interest rate environment. New plans totalled 13,448 in the first six months of the year, compared with 24,659 a year earlier, a drop of 45%.

This made it the quietest start to the year for new customer numbers since 2016. However, there were modest signs of market recovery towards the end of Q2 as sales of new plans reached their highest point of the year so far in June.

New equity release plans agreed by month



Source: Equity Release Council

New customer activity has looked significantly different so far in 2023 compared to recent years. The average new customers across both lump sum and drawdown products had a lower value property than was the case in 2022. Customers have also withdrawn less equity so far this year, both in actual (£) and relative (%) terms.

As well as a sign of customer caution, this will also be a result of lower limits on maximum loan-to-values (LTVs) as providers adjust for higher interest rates to help preserve more of customers' equity.

Average new lump sum lifetime mortgage

		H1 2022	H2 2022	H1 2023
	Customer age	68 years 4 months	68 years 4 months	68 years 1 month
	Property value	£423,556	£428,482	£380,087
	Rate	4.00%	5.14%	6.66%
	Loan	£132,085	£131,299	£98,407
	Loan-to-value	31.2%	30.6%	25.9%

Source: Equity Release Council

Average new drawdown lifetime mortgage

		H1 2022	H2 2022	H1 2023
	Customer age	68 years 8 months	68 years 8 months	68 years 3 months
	Property value	£441,270	£454,931	£428,539
	Rate	3.43%	4.82%	6.28%
	Loan	£134,692 with £92,580 upfront	£135,047 with £85,785 upfront	£104,443 with £60,534 upfront
	Loan-to-value	30.5%	29.7%	24.4%

Source: Equity Release Council

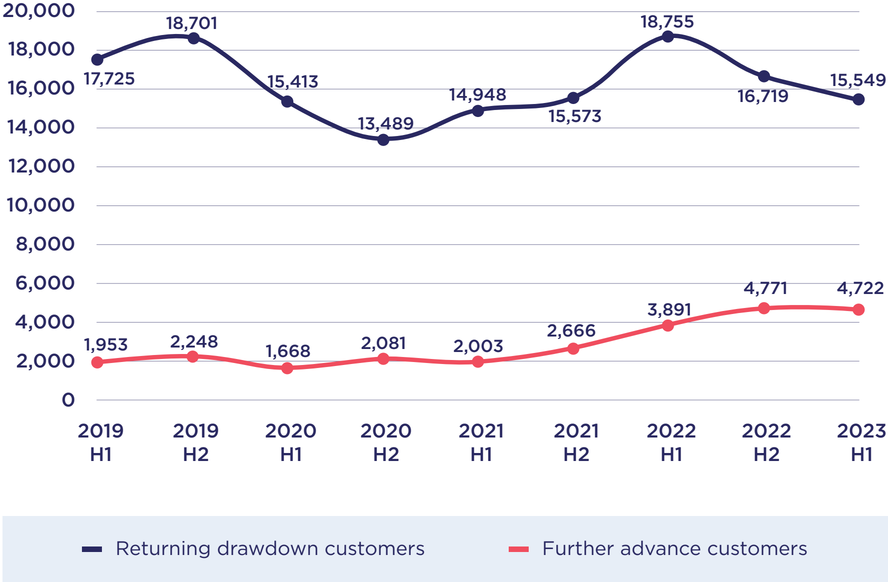
Returning customer activity

While new customer activity has fallen markedly, the number of customers making drawdowns from existing plans or agreeing further advances (extensions) has held up better so far in 2023. All customers' previous borrowing has also been protected from rising interest rates, with Council standards ensuring that rates are fixed or capped at the point of withdrawal.

With each new withdrawal charged at prevailing rates, returning drawdown customers were slightly fewer in number during H1 2023 than the previous year. More further advances were granted than in H1 2022, but there was a notable shift in product preferences.

Three in four (76%) customers taking further advances chose a lump sum over drawdown arrangements, up from 52% in H1 2022. This is likely to be a sign of customers acting now to protect themselves from further rate rises. The average size of a lump sum further advance was also noticeably smaller at £20,725, compared with £31,322 a year earlier.

Trends in returning customer activity



Source: Equity Release Council

Average withdrawals by returning drawdown and further advance customers

	H1 2022	H2 2022	H1 2023
Average drawdown per customer	£13,280	£14,332	£12,904
Average lump sum further advance	£31,322	£31,315	£20,725
Average drawdown further advance	£29,444 including £22,914 upfront	£30,769 including £21,974 upfront	£38,014 including £23,699 upfront

Applying and reinforcing best practice

A founding principle of the first equity release industry standards in 1991 was that all potential customers must receive "complete and clear" information that explicitly sets out the benefits and limitations of the product, together with any obligations on the customer. An independent legal professional would only sign the solicitor's certificate if they were satisfied their client understood the terms and implications of the plan.

More than 30 years on, the later life lending market and wider socio-economic landscape have evolved significantly. As we approach the 20th anniversary of formal regulation, the Council is firmly focused on ensuring members meet and exceed regulatory requirements by raising and reinforcing best practice across the sector.

In its latest review of later life mortgage sales published in summer 2023, the Financial Conduct Authority (FCA) highlighted two priority areas for firms to address, which the Council will support.

Suitability of advice

Modern equity release is arguably the most improved product in UK personal finance of the last 30 years, through a combination of industry standards, formal regulation and significant product innovation. While satisfied customers are the norm and complaints are rare, the regulator's findings indicate the need to raise and reinforce best practice in the advice arena, so that improvements made by firms during the FCA's review are mirrored across the market.

Our ongoing standards-setting work has already been examining the advice process, and the FCA's feedback will help to inform next steps including:

- Continuing to carry out oversight checks on member firms, and take action against those who are not adhering to Council standards
- Strengthening the annual attestation process by testing member firms against their understanding of Council standards, rules and guidance
- Reviewing key assets including the checklist for advisers to ensure they support the recommendations of the FCA's review, including capturing income and expenditure details
- Delivering the inaugural Equity Release Adviser Summit where the advice community will hear and learn from both the FCA and FOS
- Enhancing our annual compliance checks and demand evidence that advisers keep up to date with and can properly apply our evolving standards.

These actions will build on those delivered following the FCA's review of sales and advice in 2020, when the Council:

- Published an updated checklist for advisers supported by a detailed good practice guide, with a particular focus on recording of soft facts, personalisation of adviser documentation and discussions around income and expenditure
- Undertook a wider review of Council standards, rules and guidance to ensure they supported the regulator's objectives.
- Published an industry-wide competency framework to support adviser development, which is used as the basis for training programmes by a number of leading adviser networks.
- Produced a guide to help consumers better understand and compare fees and charges across different equity release products. The guide sets out a consistent way of describing fees and charges using clear, simple and standardised language that is easy to understand
- Launched new guidance for providers and advisers to strengthen post-completion communications practices, helping customers to make the most of their equity release products as their needs evolve and ensuring their loved ones understand the process
- Reinforced the above actions by issuing regular regulatory, policy and compliance briefings, issuing guidance notes and hosting technical briefings on areas including the new Consumer Duty requirements.

A number of post-2020 actions are in their first year of implementation, as are the new Consumer Duty requirements, and should therefore have an increasingly positive impact on the customer experience over the next year and beyond.

Financial promotions

Council standards exist alongside FCA and Advertising Standards Authority regulations to protect potentially vulnerable customers from pressure or coercion. The Council supports both regulators' work and we expect all member firms to act responsibility within these rules.

Additionally:

Any adviser who is regulated, qualified and a Council member must prompt potential customers to consider whether other options – such as savings, benefits, investments or other mortgage products – are more suited to their needs, as part of a thorough and balanced review of their finances and future plans.

Uniquely among later life mortgage products, customers of Council members also receive independent legal advice to ensure they understand the commitments involved with equity release.

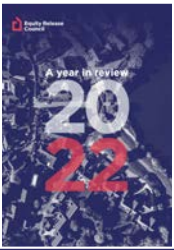
Legal advice also examines whether customers have sufficient capacity to enter into the contract, and ensures they are not under any undue pressure to proceed.
In this way, a customer taking an equity release product is more supported in their decision-making than someone of the same age, in the same circumstances, who takes out a residential or retirement interest-only mortgage.

About the Equity Release Council

The Council is the representative trade body for the UK equity release sector with more than 750 member firms and 1,900 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, more than 650,000 homeowners have accessed £46bn 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.



[Read the Council's 2022 annual report here](#).

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 Council. It uses aggregated data supplied by all active Council provider members to create the most comprehensive view of consumer trends and product uptake across the market.

The latest edition was produced in Autumn 2023 using data from new plans taken out in the first half of 2023, 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.

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

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