HTFS Newsletter

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THE RISE OF THE EQUITY RELEASE MARKET

The total amount of property wealth being unlocked by older homeowners continued to climb throughout 2018 and into 2019, as housing wealth reinforced its role as a modern retirement planning option.

Property is often our largest single asset, so it is perhaps unsurprising that property wealth has emerged as a mainstream retirement funding choice. After all, investing in property has continually been considered by the UK population as one of the most popular and safest ways to save for retirement.

According to Equity Release Council figures, over the course of last year, 82,791 customers released equity from their homes, an increase of 24% on 2017. Lending activity grew alongside this for the seventh consecutive year in 2018, with £3.94 billion of housing wealth unlocked – a 29% year-on-year increase.

It's become abundantly clear that the rapid market growth in recent years has acted as a catalyst in the development of flexible product features. David Burrows, ERC Chairman stated that: "these figures highlight the rise in new products and increased product flexibility, which is helping older homeowners to fulfil a host of pressing personal, social and financial needs."

The amount of lifetime mortgages on the market increased by 78% in 2018 alone, and by 206% since just 2016. 80% of all plans now offer ad-hoc, penalty-free partial capital repayments, 51% offer fixed early repayment charges, 46% offer inheritance protection, and 45% of plans offer downsizing protection.

"This innovation has brought more competition to the later life lending arena, while maintaining the standards and protections which ensure equity release products are future-proofed to provide good outcomes for consumers," added Burrows.

With more products and more features affording clients more control and flexibility with their lifetime mortgages than ever before, and no restrictions on how clients spend the funds released, there is a significant opportunity for both the increasing amount of people struggling financially in later life, and for more financial advisers to offer their clients a wider range of appropriate products.

According to the National Office of Statistics, in 50 years' time, the UK is expected to have an additional 8.6 million people aged 65 and over. As more people look to supplement their savings, pay off their debts and for help to meet their needs and wants - including care costs and intergenerational lending – the demand for equity release looks set to continue to rise.

PRODUCTS THAT PROTECT AND OFFER FLEXIBILITY

With a growing choice of products and features now available, equity release has become even more flexible to suit a range of consumers' needs and wants – from paying off debt and funding care costs to travelling and helping their adult children and grandchildren onto the property ladder.

Thanks to the variety of plans now available, equity release products are able to appeal to an even wider and more diverse profile of customer.

Inheritance protection

Inheritance protection allows clients who have not taken the maximum loan available to secure a percentage of their home's future value as an inheritance.

Partial capital payments

Most lenders allow customers to make partial capital payments without incurring any penalties. This reduces the amount of roll-up interest clients pay over time, and could be ideal for those aged 55+ who are either still working and able to afford repayments, or for those who come into some money and want to reduce their loan.

Fixed early repayment charges

Lifetime mortgages are designed to last for life, but in some cases, clients might want to or have to repay their loan in full, so they might incur an Early Repayment Charge. Fixed ERCs ensure that should this happen, the charge will always be of a known cost to the customer.

Downsizing protection

All lifetime mortgages approved by the Equity Release Council are portable, meaning that if clients want to move home, they can do so and simply take the loan with them, as long as the new property meets lending criteria at the time. If the new property does not meet lending criteria, downsizing protection allows customers to repay the loan without incurring any early repayment charges, as long as the move occurs after a minimum of 5 years from the start of the loan.

ERC exemptions on death/admission into care

Some lenders have recently introduced an ERC exemption, so that in joint cases, if one of the borrowers passes away or goes into long-term care, the remaining partner can repay the loan in full, penalty-free, within three years.

With such a wealth of plans and options available for clients, it's a flexible solution that can be tailored to individual needs.

TAP INTO LATER LIFE LENDING AND START LIVING THE LIFE YOU LOVE

Equity release is on the up and much of that has been driven by product innovation and lower interest rates meaning that a lifetime mortgage can now appeal to a much wider audience.

While there is no such thing as a typical equity release customer. However, there are typical needs and wants of an equity release customer.

In the past, homes and holidays have predominantly topped the list when it comes to equity release. They're still popular reasons, but it was the rise of gifting to family and paying off debt that became more noticeable throughout 2018.

Home improvement

In the majority, the equity release money is being used to future proof or 'age proof' the owners' home so they are able to remain in the property for longer. 66% of those using equity release had used the funds to improve their homes and make them more accessible for later life living.

Gifting

Gifting some of the money has become an increasingly popular use of released funds, highlighting the intergenerational benefits of equity release for families. The money gifted to family is used to clear debts, pay for significant life events such as weddings, or fund house deposits. Other uses include paying for large family holidays, university fees or buying cars.

Mortgages and debt

Debt remains a major issue for those in or approaching retirement. 31% in 2018 planned to use their funds to clear credit cards or loans, while 22% used it to pay off existing mortgages.

Around a fifth of all outstanding residential mortgages in the UK are interest-only, according the Council of Mortgage Lenders. They estimate that about 1.9 borrowers are only paying off the interest on that debt and one in 10 have no plan in place to pay off the capital when the loan matures. This is where equity release has played a vital role in what has been dubbed the 'ticking time bomb'.

Boosting income

With food and utility bills consistently on the rise, many on a fixed income in retirement can find their spending power considerably weakening. Equity release is one option that can be utilised to bump up their income and free them from monthly repayments.

More and more advisers are now using equity release to help their clients with later life planning. As the baby boomer generation hit retirement, and with many having their wealth tied up in property, they're looking for different financial options to live the retirement they want.

Equity release isn't right for everyone, but can be an option for those looking for cash in certain circumstances. It's designed for homeowners with a minimum property value of £75,000 who are over the age of 55. They may have a low retirement income, personal debts with no way to pay them, or simply want a cash lump sum for in-home care, improving their home, helping their loved ones, or taking the holiday of a lifetime.

CHANGING PERCEPTIONS

Equity release may have seen a boost in popularity over the past decade, but it's a sector that has really only just scratched the surface. People are living longer and as more people reach pension age with limited pensions and savings, they're looking for flexible financial solutions that meet their needs.

With more than a quarter of the UK's entire population projected to be over 65 within the next 50 years, older homeowners are now realising what an important role their property wealth can play in supporting their retirement.

Mainstream acceptance

In the past, equity release has faced a bad press. Before the sector was regulated, thousands of borrowers ended up owing more than their house was worth and the products were seen as poor value.

Since then, much has changed. All Equity Release Council (ERC) plans come with a no-negative-equity guarantee, meaning the amount owed can never exceed the value of the property.

Some products allow you to also ring-fence a percentage of your estate to pass on to beneficiaries – regardless of how much interest on the plan has built up.

With ERC-recommended plans, when you take out equity against your home, you are guaranteed to remain the owner until you pass away or go into long-term care.

The ERC also gives you the right to take your equity release plan with you if you move – subject to provider criteria.

Attitudes have changed

The idea that property wealth should be accumulated and passed on to children upon your death is facing a makeover. There has been a significant increase in housing wealth, while pension provision has not been as generous. Many families are now asset rich, but cash poor. Equity release plan features mean that inheritances can still be left, although many are choosing to share released funds with their loved ones while they are still alive to see it.

Lack of pension savings

Many people are facing a shortfall in pension incomes. The decline of final salary pension schemes along with a rising cost of living has led to more people retiring without adequate savings. Equity release plans have been a solution to fill this shortfall, allowing people to pay down mortgages, alleviate monthly bill payments, and boost their retirement income.

A growing market

The growth of the equity release market has led to more funders and increased competition. As such, interest rates are at the lowest they've ever been and there is a wealth of features and flexibility available. All of this combined has led to equity release allowing more people to tap into their housing wealth. There is a marked shift in consumers being more familiar and comfortable with equity release and the benefits it can bring.

Getting it right for clients is always crucial, so whether they've considered equity release before or not, it's important to ask some general questions around their current circumstances and their future hopes to see if this option could be worth exploring further.

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