Equity release: Is it time to reframe later life lending?

Brokers anticipate a strong later life lending market this year but call on lenders to support with awareness, education and communication to tap the potential and stimulate demand

Despite the significant disruption in 2020 from Covid, the later life lending sector showed signs of resilience. According to figures released by the Equity Release Council:

- **the overall number of people borrowing dropped in Q2 following near shut-down; however, there was a busy year-end as the market bounced back; and**
- **the amount being borrowed has remained stable for the past three years at £3.9bn, despite economic challenges.**

In our latest research, we spoke to a number of specialist equity release brokers on our **Citrine Research Adviser Exchange Sounding Board** to canvass their views of the market, the outlook and what they believe is needed to help stimulate demand.

Although 2020 was a challenging year for the later life lending sector, our research shows that specialist equity release brokers are optimistic that business volumes will pick up in 2021, once they are able to service pent-up demand via face-to-face meetings. However, to really move the dial in the market and tap the true potential out there, brokers believe there is a need to reframe the way equity release and later life lending is positioned and serviced. They are keen to see an industry educational campaign to help eliminate residual product stigma.

2020 was a year of two halves, with the second half uplift focused on people driven to equity release because of the Covid pandemic

Brokers say the first half of 2020 was negatively impacted with near shut-down after the first lockdown.

“We’ve been very sporadic. We’ve had great months, we’ve had bad. But after two months of sort of consistency in 2021, I think we would have probably done about 25 to 40 percent more lending last year without Covid.”

Brokers experienced an uplift in business in the second half of 2020. A lot of that business came from people adversely impacted by the Covid pandemic in one way or another who suddenly had a real immediate need to release equity from their home.

“It was a slow start, but business levels started to go up. As the year went on, it became more of a necessity for some clients… they’d been made redundant or they were furloughed, they felt the job would not be there and they were putting things into place for afterwards. So we had a lot of paying down of debt, paying off mortgages, people taking retirement perhaps a year or 18 months early. And a lot of self-employed people, and perhaps family businesses where Mum and Dad were taking retirement to allow their children to be able to draw more money. That’s what we saw most probably from the middle half of the year.”

“I’ve seen perhaps more single applicants. Where they’ve lost a partner, they’ve become a single applicant, they’ve lost a pension income as well… if Mr has died and left Mrs widowed, she’s only receiving half the pension income she was before.”

As society opens up in Spring 2021, brokers are beginning to service the pent-up demand and anticipate an uplift in business

When there is no immediate vulnerability or pressing financial need, the decisioning around equity release is considered and protracted. Advisers will have numerous conversations and typically meet potential customers – often along with their children and grandchildren – on more than one occasion.

One of the key challenges for brokers over the past year has been going out to visit clients face-to-face that have expressed interest in equity release. Despite the fact that advisers have, in theory, been allowed to visit clients, there has been some reluctance pre-vaccination for potential clients to fix in-home appointments. Telephone, Teams, Zoom or other remote channels have not been considered a viable alternative for the customer demographic.

This has meant there is some pent-up demand that only now advisers can begin servicing:

"We generally find face-to-face is better because the customer has potentially got some sort of vulnerability. Over the last 12 months, we've been restricted because while we are allowed to see people in their home from a work perspective, morally – given the age group we're dealing with – we have not wanted to do that. In another few months when everyone is vaccinated and things start opening up, we can see people and we'll see a big increase."

"The ability to do things on the phone is somewhat limited. And the advice is compromised because there are so many things you learn when you visit somebody in their own home. So I'm hoping that there will be enough clients out there. Some 70 and over will have had the second vaccination by the end of April and things will start to pick up at that point."

While the pandemic has had a negative impact on business volumes in 2020, on the flip side it has forced a lot of people to rethink, re-evaluate and replan. The expectation from brokers is that once they are able to service some of the leads and enquiries with face-to-face meetings, there will be an uplift in business from:

- customers deciding to take early retirement;
- customers planning home renovations – adapting homes for home working or accommodating children home working;
- increased gifting and early inheritance – the "Bank of Mum and Dad" (and, indeed, "Grandma and Grandpa") being utilised to help their children and grandchildren;
- inter-generational wealth transfer – freezing of tax thresholds and pension lifetime allowance driving desire to give inheritance early; and
- the introduction of the Government backed 95% mortgage and the extension of the stamp duty holiday, which have both reportedly acted as a catalyst for younger people to start thinking about getting on the housing ladder and for parents or grandparents to consider equity release as a means of helping them.

"My grandmother passed away about five or six years ago when she was in her late 90s. My dad inherited her property, but he was already in his 70s, so he didn't really need the money. You need the money when you're a bit younger and when you've got kids who are looking to get on the property ladder and things like that."

"I think we're probably going to see some changes this year. People are potentially going to be releasing money to get a little bit more to help family members out with the job market still being quite uncertain."

Strong product innovation and competitive rates have supported the market

Despite a minority call for additional lenders to offer something in the impaired life space and for more cashback deals, product innovation is not seen as the key to unlocking market potential.

Brokers are appreciative of the innovation that has occurred in the market. There are now significantly more lifetime mortgage products with attractive features including:

- downsizing protection;
- flexible drawdown;
- fixed early repayment charges (ERCs) as opposed to gilt based;
- interest repayment options and/or one-off overpayments; and
- inheritance protection.

Rates are competitive at the moment, which in turn creates good re-mortgage opportunities.

"New lenders coming into the market has driven interest rates down to be a lot more competitive. It has also increased the product features available. If you compare the plan today with one of 10 years ago, there's nothing similar… they are a lot better now and that is purely down to

the competition. Also… because a lot of the names that have come into it tend to be quite big, well-known names like Legal & General and Canada Life, customers are aware of those sort of brands and they trust them as opposed to names that they have not heard of before."

However, Retirement Interest Only mortgages (RIOs) have been a disappointment. They haven't opened up opportunities anticipated because of being so restrictive in terms of affordability.

"I have attempted to do some RIOs in the past but they've all been declined on affordability by the lenders"

"Very few people qualify for an RIO mortgage. I think across the industry in an entire year they had a total of 600 cases."

"On paper, the idea of a Retirement Interest Only mortgage sounds really good, but the criteria is just so restrictive on affordability that it very rarely solves the client's problems. They very rarely fit the criteria."

To stimulate the market further, brokers call for the market to be reframed and believe lessons can be learnt from other financial services markets

Although things have improved in recent years, brokers still feel there is residual stigma attached to equity release and believe more needs to be done by way of education.

"I think a lot of older people will still view equity release quite negatively. That is a legacy of the plans that were around 25 years ago. I think it's taking a long time to change those attitudes; there's still a lot more work to be done on that side. I still get people who don't necessarily see it as a mainstream product and I think a lot of people feel it's a dodgy product, a bit high risk. It is generally down to the fact that they don't understand how it works. So it's about educating people and making them aware of how it works, the safeguards in place with the Financial Conduct Authority and things like that."

Some brokers believe that if more big household brand names entered the market, it would help change consumer perceptions and give more credibility to the products.

“I think we could do with some of the high street banks entering the market because their sort of reach would give people confidence and would increase awareness.”

As equity release itself has been maligned and is not readily understood, brokers believe a renaming of the category could help much in the same way we witnessed a shift from PHI (often confused with PPI) to Income Protection.

“For me, if it was all rebranded and called Lifetime Mortgages – because that’s effectively what everybody takes out now, a lifetime mortgage - that’s 90 to 95 percent of the market. People don’t do home reversion and RIOs are very limited. Equity release itself has a sort of stigma attached to it.”

Brokers would ideally like to see lenders unite to develop and launch some form of industry campaign to raise awareness and educate on the category. Again, some parallels were drawn with the Income Protection market and the “Seven Families project” that ran from 2014-2016, which set out to raise awareness of the financial impact of long-term illness; to help real families facing financial meltdown and to demonstrate the value of rehabilitation and counselling, through trying to help people get back to work.

“It is education that we need. A lot of people don’t understand how the products work and if we could get that across to them… once you start speaking to people, you can tell some are sceptical about equity release and they’re not sure about it, but then once you’ve had a half-hour conversation and you explain how it works, [it changes]. I’m not saying that they want to do it, but once they understand it, they can see why other people do it and they can maybe see that it might be something that they want to do in the future. So, awareness and education.”

“There’s not enough positive campaigning or advertising.”

Another significant game changer would be greater customer focus, introducing more pastoral ongoing customer care and making the whole process less transactional.

Brokers would like to be kept informed on drawdown activity, more akin to pension drawdown and, ideally, refer the clients back to the broker in the process. This would help ensure customers are supported in making the right decisions about releasing further equity.

"Say you created a £50,000 drawdown. There is no requirement for customers to have advice when they draw down and as an adviser, you quite often won't get told they've done it. So what lenders could do - and one lender does - Responsible Lending - is email the originating adviser to say, we've been approached by your clients to draw down X amount. It gives you a chance to speak to that client to see what they are using it for."

"I think it would be to focus on the clients, not the products. Flip it on its head and actually focus on the clients, not about the rates, but communicating with the clients, on a pastoral level. Because in the lifetime mortgage industry, we might be the only professional people that those clients deal with because they're out of the loop of seeing anybody. I think we have a duty of care… and it shouldn't be about profits. It should be about pastorally looking after them. It cleans up the industry. It makes us look like most of us are decent people who would do the right thing."

Final thoughts

Just as Covid has caused people to stop, rethink, re-evaluate and replan, brokers suggest the way forward in the later life lending market is reframing the thinking around the product and the customers. Brokers call for lenders to support them in improving awareness and education, making the whole process less transactional, providing ongoing customer care and dialogue and, potentially, losing the equity release name once and for all.