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Later life lending

In association with

Legal & General

CHAIR

ROBERT SINCLAIR

Executive, AMI

Robert helped establish the Association of Mortgage Intermediaries (AMI) as an independent entity on 1 February 2012. Robert joined the former parent trade body, AIFA, in October 2006, initially looking after the Association of Finance Brokers and since 2008, AMI. He looks after the day-to-day running of AMI and AFB by lobbying government, regulators and other policy-makers, liaising with fellow trade bodies.

RORY JOSEPH

Mortgage Network Founding Director, JLM

After a decade of working for a national estate agency as a development director, Rory tired of the restrictions and sales practices of the corporate world. With his business partner, he founded the JLM Mortgages Services Network in 2005 and has never looked back. Fourteen years later, JLM is one of the leading, organically grown mortgage networks in the UK. He regularly sits on groups within the regulatory/lending sphere.

OLIVER MEDDICK

Home Legal Direct COO, The Move Home Group – The Moving Hub

Oliver is the COO and co-founder of The Moving Hub. The Moving hub was started and developed to be a market leader in our sector, offering estate agents, mortgages advisers and clients access to high quality competitive conveyancers. He has been involved in the property industry for over 20 years as an estate agent, licensed conveyancer and landlord.

DALE JANNELS

Specialist Finance Managing Director, Impact

Following a five-year spell working for Legal & General, Dale joined AToM in 1999. Graduating through the ranks, gathering CeMAP, CeRCC, CeSRE and CeRER along the way, Dale was appointed managing director in 2011. AToM became impact specialist finance January 2019. impact specialist finance caters for complex, near prime, residential, buy to let, commercial, bridging and second charges.

NICOLA FIRTH

CEO and Founder, Knowledge Bank

Nicola was a mortgage broker for 13 years and had her own brokerage for seven years. Frustration as a broker of finding the best rates for clients but discovering the lender wouldn't accept the criteria – neither would the next lender on the list or the one after that, led her to found Knowledge Bank in 2016, the UK's first criteria search system. It now holds almost 100,000 different criteria.

KATE DAVIES

Executive Director, IMLA

A graduate of Durham University, Kate joined the Building Societies Association/ Council of Mortgage Lenders in 1991. When the BSA and CML split in 1996, she stayed with the CML as senior policy adviser, specialising in mortgage regulation. Since leaving the CML at the end of 2008, Kate has worked freelance for a number of trade associations, and served as a non-executive director at Darlington Building Society.

MARIE CATCH

Home Finance Head of Mortgage Broker Sales, L&G

Marie has 20 years' experience within the financial services industry. She began in mortgage adviser training and development at the West Bromwich Building Society. She then moved to Legal & General, where she has worked across our insurance divisions in development and for the Mortgage Club for many years, working with specialist broker firms, lenders and regulatory bodies.

DAVID BURROWES

Chairman, Equity Release Council

David has been the Equity Release Council's chairman since 2017 and a solicitor for 25 years. He was MP for Enfield Southgate from 2005 to 2017. David has championed social justice and consumer protection in his career, working on behalf of his constituents on issues relating to pensions and financial services products and working closely with ministers, regulators and banks.

SALLY CLAYTON

Chief Risk Officer for later life lending, L&G

Sally has worked in financial services for 25 years, spending the last 15 as part of second line risk functions. She enjoys demonstrating to the business how risk can be used as a strategic enabler. Working in a small but very fast growing later life lending business has allowed Sally to be closely engaged with strategic developments and really understand the needs and challenges of this cohort of customers.

WILL WATLING

Director life & pensions, Altus Consulting

Will joined Altus in December 2013 and has 30 years' experience in financial services and IT management roles. He brings practical experience and in depth knowledge of the full financial services supply chain, specialising in life and pensions, investment platforms, e-commerce portals, DB de-risking & consolidation and later life lending. He has also held senior roles at Capita FSL, FIS, AssureWeb and CMG Logica.

RORY GRAVATT

Senior consultant Altus Consulting

Rory has over 24 years experience in financial services, having held roles from the sharp end as an adviser, through risk control in IFA networks, to life office change management. With a particular flair for retirement planning, he has been engaged on projects across the whole retirement spectrum. He is an ex research manager for two IFA networks and is up to date with all the latest developments.

Later life lending

Panellists discuss the latest trends in the market and the outlook ahead

CHAIR: What are the general trends in the UK later life lending market at the moment?

CATCH: The big question is what we class as later life lending? I think it is anything post-55, and in terms of that, we still have a siloed marketplace. If we take how the market's configured just now, we have later life products that come from the likes of building societies and specialist lenders for the over-55s, then at the other end we have the lifetime market for equity release. Product innovations help bridge that gap, and have come about to fulfil certain needs that we've identified. However, I do think the customers who are in this space are changing and what they want to do in later life is different to what was happening 20 or 30 years ago, though I'm not sure if the products are satisfying that movement and if they are flexible enough? I think the trends are there in terms of the market changing, but they are very product driven and I'm not necessarily sure the industry is fulfilling all the customers' needs at this point.

JOSEPH: We have a market which doesn't work. It's overly fractured because each product is so siloed. In the intermediary space, we have advisers who often, only specialise in one particular product group. This has potential consumer detriment written all over it. I think in the lending space, we have different regulations applicable to each siloed group of propositions, which again is an inefficient way of doing things and isn't particularly helpful. We have an examination framework which doesn't really fulfil the way the market has perhaps evolved, and we have a market which needs some pretty serious spring cleaning to try and pull all these different elements together. At the end of the day, the market needs to make sure that consumers reach a better outcome and have products and advice available to them to ensure that.

DAVIES: The silo effect is caused by funding issues as well. That is what has kept the lifetime market and the mainstream market so different up until now.

BURROWES: We've been talking about the siloed market for several years now. What has mitigated some of that, is the fact that there has been product optionality. We're seeing customers using drawdown, they're using serviced interest options and using competitive interest rates. That's all very good news. I think the reality is yes, there are barriers however. I think from a customer perspective, and from what we have found in our research, the reality is that customers want to be able to enter a door where they get help when they're paying for their retirement. You need to recognise that the customer journey is not just one of distress and dealing with debt, but about looking at supplementing incomes. They're wanting that front door to be open to them and to be able to have that informed advice. There is a growing attitudinal change to realising that property is an increasing aspect of retirement planning. The opportunities are there and I think we can talk more about how the sector's seeking to respond to that challenge which must be met in this coming year.

CLAYTON: Retirement is changing. People are having a much longer retirement, they're healthier and actually they have aspirations to do different things and they want different outcomes compared to previous generations. Some of the concerns that I have right now, are around the outcome that a customer might reach depending on who they actually speak to. There's a possibility that they might not actually find the route to the outcome that's best for them. I think that's why it's really important that we take a look at the silos and break those down.

The right solution

CHAIR: Is that getting worse or better do you think?

CLAYTON: I would say at the moment it isn't changing very much at all. Beyond the specialists there's a lot of nervousness from certain people in the rest of the market, though. Lifetime mortgage products used to be a last resort. In my opinion, the risk stems from the people that are driving this nervousness in the industry. It's something that we as a business are trying to overcome, rather than the firms themselves. I think there are firms out there that want to do this and play in the LTM market, and that perhaps their risk teams are a little bit nervous about the consequences.

JANNELS: I think it's also a huge educational piece. I think the end consumer doesn't understand what their options are. Historically lenders have written out after a 25-year interest-only term and not put at the bottom of the letter, 'go and see a mortgage adviser', or 'go and see a later life lending specialist'. It's always, 'we'd like our money back please'. You've only got to turn the TV on today and straight away you'll see a lot of coverage on equity release. I don't think that consumers properly understand all the options available to them for lending into late life or how cheap it is. The rates are so incredibly amazing that these opportunities should be put in front of the consumers' faces and shown as a comparison to equity release.

FIRTH: I would agree with that, but I think some brokers don't understand what the options are. I think with the emergence of these silos, probably the cat amongst the pigeons was RIOs. You've also got networks that don't know how they're going to deal with RIOs. Are they going to let every adviser advise on them? Must they be equity release qualified? Just in defence of brokers, there's been so many changes in the buy-to-let space and so many different things to get their heads around from a regulatory and governmental perspective. I don't necessarily think brokers know what to do, how to handle it and where to go really.

JANNELS: I think you're spot on. Brokers as a whole have always tended to concentrate on straight forward mainstream lenders. Anything else complex like buy-to-lets, over 55s, bridging or commercial etc. they've just either turned away or not shown much interest. But that is now changing.

DAVIES: With the best will in the world brokers can't be everything to everybody. If you're specialising in residential, you may be aware of the lifetime equity release market but you'd have to do the qualifications and apply for the relevant permissions to go down that route. You can't dabble in it either, because if you only do a very few cases then the specialist lenders aren't going to want to take the business from you. They'll want people who are doing it all the time and who really understand it.

GRAVATT: With the specialists, if you've got guys that are only focused on lifetime mortgages, how do we actually turn around and really honestly push out the other products if they're not (a) competent to be able to deal with it and (b) not equipped with the information to be able to try out and work out what's right for their clients. I think that actually is one of the biggest challenges you're going to have with this. I've talked with different business associates in the past where they want to make sure they've done everything they can to not put the customer down the road of picking up a lifetime mortgages when a RIO or a retail mortgage might be more suited, but it is all too easy to fit the product someone has to the customer circumstances.

DAVIES: The challenge is in how to do the handoffs. For the brokers who aren't specialists on one discipline or the other, they don't always know who to refer you to. It's that bit that doesn't seem to be working.

Qualifications

JANNELS: I think now, brokers are actually like sponges. They want to have more information and want to see what they can do without necessarily having to have full ER qualifications.

JOSEPH: I think that's absolutely true. I think the difficulty we have at the moment is we've got very generic qualifications. Lifetime mortgages would probably fit better in the financial advice arena rather than in the mortgage arena, because actually there's a lot of holistic advice around inheritance tax, planning, benefits and care. That hasn't happened, and part of me thinks that what we've done is build artificial barriers. We say well if you've got your CeMAP and you've got an equity release qualification then you can look at mortgages, RIO and ER, but you may not have the other things in your armoury. Part of me also thinks in an increasingly complex mortgage market, are we better off moving to a much more granular qualification where you have the basic mortgage qualification? You can then add in limited company buy-to-let. You can then add in RIO, and have a qualification framework where people can build up their knowledge in a very organised and easily measurable way. My worry is that at the moment we give someone an equity release qualification but it's pretty limited in scope.

CHAIR: Does L&G worry as a product manufacturer that they might have people in a product solution that wasn't the best thing for them?

CLAYTON: No, I don't think so. We've got a distribution oversight framework, we have MI levers that we can look at and we will go out and visit firms. I'm more worried about people not finding the right solution than being in a wrong solution, certainly from what we've seen.

GRAVATT: I think that's true. I think we've all got the ability to have handoffs in the market, but I don't think the handoffs are efficient enough. I do think people are being closed off from solutions that could otherwise have been adapted for them and given them better outcomes.

JOSEPH: A parallel can be drawn here with defined benefit pension transfers. This is an example of a specific qualification which allows you to do something. As a result it is an automatic handoff if you don't have those permissions.

FIRTH: The one lending type that caused the biggest headache for us at Knowledge Bank was equity release. We went backwards and forwards and we said do we ask brokers to confirm they have the qualification before we show them the criteria or do we just open it to everybody? The way that we've come down is on the side of education. Advisers know they can't advise on equity release if they don't have the qualification. By letting everybody see that criteria, it enables advisers to have better quality conversations with customers. They'll say look, do you know what, I've looked at it, I can't advise you on this but I think this might be right for you and then that handoff occurs.

CATCH: I also think it's the time where we challenge advisers to really think about what they're doing in this space. It is important that they have customers sitting in front of them and are able to provide solutions. Also I think adviser firms need to think strategically as to where they're going in the future with their business.

Responsibility

CHAIR: David, is it the government that should be driving this agenda more? Should the regulator be taking more responsibility to create a better structure, or should it just still be sitting with the trade bodies and the industry to find the best solution for consumers? Or is it a combination of the three?

BURROWES: I certainly don't think it's for government. From a regulatory point of view, obviously one of the opportunities was the consultation around retirement interest only mortgages. We also have the mortgages market study and obviously we've got the register of mortgage brokers coming. That's all going to help. I wouldn't say there needs to be intervention yet but unless the industry genuinely does bring together the qualifications, the competency and funding optionality as well, then I think certainly from a regulatory point of view we are open to a challenge.

DAVIES: I think the challenge probably has to come from the industry rather than from the regulator. When it comes to qualifications, yes, they will list the approved qualifications, but they don't write the exams, they don't even technically approve them. The push needs to come from industry. If we need another exam let's set another exam and add it to the list. It won't be the FCA that writes that and puts it in place.

MEDDICK: I also think with advisers, a lot of them are scared about the responsibility of late life lending. It's not just the client who you're talking to, you're actually talking to their family. Where is the money going to come from for a generation that needs deposits? The responsibility for late life lending is massive.

BURROWES: The mortgage study on this recognised, particularly in the lifetime lending and equity release markets, that there are complexities to where it isn't just like any other mortgage in that sense. That there are those wider issues to take account of.

MEDDICK: Absolutely. In life we're massively impatient, we want a new phone, we want it now, we want a new car we want it now. Not how much it costs? Or how much we can afford per month? I worry, as I said, if there's not a drip feed of money coming down from the inheritance which obviously unfortunately is what happens, how do you get to the next stage in the property ladder? What am I going to replace it with when that goes out of the marketplace, when people aren't inheriting?

CLAYTON: I think it's changing now. I think people are getting it in different ways. I've had a family member releasing the money to give to their child now because actually it's no good to them when they're in their 60s. Society is changing and the solutions available must reflect this. One of the ways that these products help is by releasing the money now. Then it is about the satisfaction that parents and grandparents get to actually live to see the money being used rather than it being an inheritance.

One of the biggest problems I think with downsizing is the ability to actually downsize and also the cost. If you look at some of the costs now of downsizing versus, if you chose to take a lifetime mortgage and let the interest accrue, that's a lot of years of interest rollup before you even offset a stamp duty charge.

GRAVATT: There's also a supply and demand situation with that because typically you've got people that are downsizing from large properties where there isn't the demand.

MEDDICK: This is why I think that with all these different elements, with all the different people, we can easily see why financial advisers don't want to get involved.

JANNELS: When you get interest roll up involved, absolutely. Where it's just extending a normal mortgage from the end of the term of the mainstream lender for another 10 or 15 years, it should be a really easy extension.

JOSEPH: The problem is pricing. At the moment you can pick up a lifetime mortgage product, sub 3%, that's fixed forever. You can make multi-payments, which you can make sporadically, as well as overpayments and the fees are very low. That's quite a nice proposition. In the RIO market rates are far, far higher than ER rates, I think due to a combination of how it's funded and the lack of competition. A concern I have is, if somebody can't provide holistic advice, they're going to go to their 'best fit' solution. The pricing adds another layer of complexity – for example, if you take the Leeds Building Society, I think their most successful product in RIO world is their 15 year fixed rate, but this offers a payrate some 1% - 2% higher than that available as a lifetime fixed rate in ER, where you can still make an overpayment in any case. That, I think is where part of the issue is.

FIRTH: Just to go back to the point on whether the government should be more involved. One potential element, is thinking about retirement planning. We've got this ageing population that don't have pensions, but they are sat on a big pot of wealth. Now don't get me wrong, there are lots of issues around that morally and otherwise, but are we then creating another problem because they're going to use that then as their pensions and therefore where does that next generation get their money?

DAVIES: I think I've just invented the term 'twilight planning'. Yes, the couples go off on their round the world cruises and have grandchildren, are healthy in their 60s, 70s and 80s. Then when the wheels fall off in their 90s and they need to go into a care home or their partner does, who pays? A lot of people think the government will pay, some of them are waking up to the fact that the government will not pay and they're going to have to fund themselves. Yes, you might want to help the kids, you might be able to help them a bit but you want to keep a bit in the pot. Why would you move out of your big house if the value is high? You're going to get more in the way of equity release out of it.

CHAIR: Is there a regional issue that's going to sit as a subtext to this as well? If you live south of the line from Bristol to Hull you've probably got some capacity. If you live north of that line you might not.

FIRTH: Definitely. In that north south divide they are cash poor asset rich. They are sat on properties because the narrative is that you've got to own your own home and pay it off before you retire. South of the border may be a little bit different.

WATLING: Do you see opportunities for products where perhaps the children of prospective equity release clients, who may well be able to afford £1,500 or £2,000 a month for their rent and have no problem paying the interest but don't have the capital for a deposit to buy their own home? Do you think we will start to see products where the children start paying the interest on their parent's equity release mortgages?

DAVIES: I'd love to think it might be possible in some circumstances. I think the scope for very complex situations and massive arguments is quite large however. Families break up, siblings squabble. It's great until someone divorces. I think that's part of the fear of some of the later life products. Yes, I understand it when I'm 60 and 70 and maybe even 80 but a few years down the line I maybe a bit more frail, I maybe a bit more vulnerable. Who's going to be looking after my interests if I've complicated it by lending to other members of the family and they've got other vested interests? It won't happen in every case but that would make me quite nervous of going there. How do you futureproof that?

Room for more?

CHAIR: I'm getting the feeling, listening to this, that you actually think the industry has the range of, what I would call product sets that it needs for the future, and there isn't that much need for more what I would call technical innovation around?

GRAVATT: I think there's more efficiency you can build into it, but from a structural point of view, your structures are there. It's how you make them more efficient so they can actually give you a little bit more flexibility, or a bit more free reign.

CHAIR: Is it the regulatory capital issues that are actually the barriers here? Or is there something else driving this?

JANNELS: It's affordability as well. It's the way they calculate affordability. It's a huge problem across the board.

JOSEPH: Which is where the issue lies with RIOs. It's much easier to get a mortgage with a lender who doesn't have a maximum age than it is to get a RIO mortgage, generally speaking. People often hop over the whole RIO bump in the road to go straight from traditional mainstream, but with more flexibility on age at the end of the term, straight into lifetime. That doesn't seem right. I appreciate there has to be bleed across from each bit into another, but I think it's the funding, and also the regulatory side of things, around how that RIO affordability works.

JANNELS: What's really scary, is quite a few lenders still work on affordability calculators on an Excel file. In this day and age, you're looking to lend into later life, they should not be doing it on an Excel file. It should be rules, regulations, it should be all built into a system that makes a reasonable and calculated decision.

WATLING: Over the next 5 to 10 years, I think we're going to have very different challenges and as an industry we need to start thinking about how we plan for those now. Today we tend to think of advice as either for mortgages or retirement. We're moving from clients who have DB and state pensions at a reasonable age to the majority of clients being dependent on DC drawdown. How does a later life lender qualify what the retirement income might be? There's no guarantee, there's no longevity protection for them at all anymore. Clients could cash in all their pension if they wanted to. Personally, I would like to see some preparative thinking from the regulator around this.

CHAIR: Is that the regulator's job, or is that actually the product manufacturer's to define what they're prepared to accept?

WATLING: I think it's the regulator's job.

GRAVATT: I think it's a cross party decision. The challenge we've got here is, you're asking manufacturers in different markets to turn around and come together, and that therefore needs someone to turn around them together, and that's what the regulator with its role of ensuring that the markets efficiently work can be, that chair for the discussion. I'm not saying they set it out, but they can be that hub and bring those elements together.

WATLING: It was a regulatory change that brought about pension

freedoms not the manufacturers. The result of which has been that advisers are now having to advise those clients, if they want to drawdown their pension pot, throughout the whole of their life. That will mean that they will now need to start engaging with those clients, taking into account all the life events that happen throughout the final stages of life until the day they die. If they don't have longevity protection on those pensions anymore, then they may well need equity release of some kind in the future. I think we need to start thinking now about how that happens, across the industry.

CHAIR: The equity release market for a long time sat at £1bn. It's grown to £4bn, and it appears to have plateaued a little bit. What is it that has caused it to plateau? Is that supply or demand? What does the future look like?

CATCH: The enquiries are there from customers and this is what brokers are telling us. But they are experiencing slower times to completion with customers taking more time to decide how to proceed. So the number of enquiries hasn't actually gone down this year, it's just the dynamics are different. I think in this space, as well, you've got two types of customer - needs-driven and aspirational. The needs driven ones require the money for to maintain their lifestyle, pay bills, and pay off debt and this drives their decision to complete. Whereas the aspirational customers who want to treat themselves to lifestyle items, such as travelling or a new car, appear to be taking more time to consider their options.

WATLING: If you were to graph it, we're at a nice peak in demand. However, I think in the next five to ten years, there's going to be a disconnect, because today most of the funding for lifetime mortgages comes from the annuity providers. Therefore, you've got a bit of an odd situation, where, you're relying on pensioners who've got guaranteed pensions to fund the lifetime mortgage market. As the volume of those DB clients reduce that funding stream will break down, because you won't have the same volume of bulk and individual annuities taking place. So, that is going to completely change, and we're going to have to start seeing different funders coming into the market. I think we will see change, perhaps with CDC, for example, but only if the regulator allows it. Pension funds converting to CDC won't have to have the guaranteed income streams, because they're not paying a guaranteed income. So, that could open a huge fund of capital, which in turn could allow more flexible lifetime mortgages, or later life lending solutions to be brought to market.

JANNELS: You were talking about equity release being £4bn today, and what's going to happen to it over the next couple of years. But if you go back three years ago, the end of a normal high street mortgage was 65. That was it, there were no other options. Today, high street lenders are going to age 70, 75, 80, even up to 85. If we have stats for the increase in just that one part of the sector, you're probably going to see why the equity release side is not increasing as much, because people are just taking a normal mortgage.

FIRTH: That's where the conversations around later life lending need to be starting perhaps as early as the age of 40.

CLAYTON: The conversation needs to change. If we're talking about a 32-year old whose mortgage is running to 72, the conversation should be, you're going to spend the next 40 years paying this off, and then for 20 years after that, it will keep you in retirement. So, you're setting that expectation which our parents' generation certainly didn't have, maybe we didn't have, that you pay this mortgage off and then actually, you need to start working it in the reverse way and run it up again. But I think if you set that out now with that younger generation that this is the expectation, then it's not going to be a surprise to them. They don't have to get over that mental barrier. We know from research, it takes on average 12 months from when a customer starts to think about equity release to when they actually do it. Because, it really is a mindset thing. It really is that battle.

CATCH: It's a natural transition through their life, and there will be a product that will help them along that transition. That's a long term challenge.

JANNELS: It's technology driven, as well, isn't it? Because everything is available online. But is it right?

CHAIR: Rory, from your perspective, running a business, and taking the risks that run around that business, how do you see that advice journey developing? Do you see it as still being segmented and transactional?

JOSEPH: I think we need more holistic debate. We also need to effectively move mortgage advice into how financial planning currently works, with regular annual reviews. To my mind, that's something the providers can have a significant impact on. So, for example, I have a real problem with broker fee levels, specifically in the equity release market. Because generally speaking, most of the big players charge what I would say is a rather disproportionate fee. However, if the provider were able to facilitate that being paid over a 20-year term, then suddenly it isn't. If financial advice were to be hung around an annual review or maybe a meeting every two or three years, that to my mind would be a good way of cementing the adviser's role in the process. I think from our perspective, we're cautiously optimistic that a few systematic changes can be made. We've made a big effort with some of our mainstream advisers who are getting to the point now where their skillset lies in face to face advice and actually, in the mainstream market, that's becoming increasingly less important, as they don't see people. But actually, they're a great fit for RIO and equity release, where people actually want to sit down and have those conversations. If we can find a way of upskilling those advisers so they've got the qualifications and the knowledge etc to be able to do that, and then if we can find a way of allowing them to be paid for those regular reviews, I actually think that would be a really positive way in which the industry could go.

CHAIR: Nicola, from your perspective, whilst there's a face to face piece around that, how much do you think technology can move into this sector to enhance the journey from an adviser, but also consumer perspective?

FIRTH: I think it's massive, and I do think that the pieces are there to do that. I still think the equity release market, or later life lending, it's not a button click. It's really not. Right now the gains are in the efficiencies that technology can deliver to advisers and those in turn are what will have a positive impact from the consumers' perspective.

JOSEPH: I think technology can make the market vastly more efficient. The expectation is everything has to be face to face.