

# MONEYAge

First for IFAs, mortgage brokers and the financial services sector

## Guide to later life lending



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## Equity Release: How did we get here?

If the equity release market weathered the storm of the COVID pandemic, it has more recently faced an economic hurricane in the form of the UK's cost of living crisis

**Michael Griffiths, News Editor, MoneyAge**

**T**he equity release market is going through a rebuild. Figures recently published by the Equity Release Council, the representative trade body for the UK equity release sector, revealed the third quarter of 2023 registered market growth for the first time in 12 months, with quarterly increases in both new customers (10%) and total lending (8%).

A total of 17,078 new and returning customers used equity release products – primarily lifetime mortgages – between July and September 2023 to unlock wealth from their homes. They released a total of £716m in property wealth during this time, a total representing an increase of 8% on the previous quarter (£663m)

and making Q3 the busiest quarter of 2023 so far for lending.

All impressive figures, but if these numbers only represent a market in recovery, it begs the question; how did we get here? It could also make one wonder how far as a market the equity release sector is capable of going next.

### Recap

The origins of equity release can be traced back decades, but it was really in the 2010s, and with stronger market regulation, in which it became a more popular borrowing option for older homeowners.

In a nutshell, the equity in a home is the market value of the property minus any outstanding mortgage or other debts the

homeowner might have secured against it. Equity release provides a way for homeowners over the age of 55 to release tax-free funds from their home without having to move.

A borrower can either take the money released in one lump sum, or in smaller amounts over time – known as drawdown – or a combination of both, through choices that now include lifetime mortgages, retirement interest-only (RIO) mortgages, and home reversion plans.

Choice in the equity release market has grown rapidly from when the first lifetime mortgages emerged, which could be due to various factors. Perhaps most significantly, people are now living longer, while retirement income has failed to keep pace with the cost of living.

According to data from the Office for National Statistics (ONS), people in the UK who were aged 65 in 2020 can expect to live on average a further 19.7 years for males, and 22.0 years for females. These figures are projected to rise to 21.9 years for males and 24.1 years for females at the age of 65 years in 2045.

These conditions leave the equity release market primed for growth.

### Rebuild

When the COVID pandemic hit the UK and transformed the country in the space of a few months, lives were completely turned upside down, while the effect on the equity release market was also substantial.

The market had become accustomed to more than 20,000 new or returning customers releasing equity each quarter in the two years before COVID struck. But the pandemic saw a drop in borrowing, while customers who did remain began to release equity for a variety of different reasons to before.

It was used less to fund the "once in a lifetime" experiences and more as a way to support family or day-to-day living expenses.

As the lockdowns now become a distant memory, however, the equity release



market is once again edging towards the heights it was previously threatening to scale.

According to figures from the Equity Release Council, last year saw more than £6.2bn of property wealth turned into cash via equity release – double the equivalent amount in 2017.

The market's current lending activity levels of circa £700m per quarter is also broadly in line with levels last seen during the first half of 2017, excluding the first lockdown during COVID.

If the equity release market weathered the storm of the COVID pandemic and the volatility in house prices that came with it, it's fair to think it might have more recently faced an economic hurricane in the form of the UK's cost of living crisis.

But, despite the rising cost of living outpacing retirement incomes across the country, the equity release market has already proved itself capable of maintaining solid foundations through a period of uncertainty.

One could argue the market's recent return to growth has just as much to do with trust and innovation as it does with external factors, as borrowers keep looking for ways to manage their finances in later life.

## Reward

After two years where customer numbers have been subdued by the pandemic, customers are starting to venture back. Pent-up demand could well emerge in the next few years as the interest rate cycle begins to turn again.

While figures for lending activity, loan sizes and customer numbers embark on their roads to recovery, product numbers have kept on multiplying, and innovation in the equity release market has continued to increase the flexibility of lifetime mortgages.

Figures recently published by Moneyfacts revealed that lifetime mortgage rates are falling, with the average rate reaching 7.13% since the start of November, down from 7.33%. At the start of November



2022, the average rate stood at 8.13%, its highest since Moneyfacts' records began in November 2007.

This data also showed that the number of equity release deals to choose from stood at 312 at the start of November, a far greater number than at the start of this year, with 179 deals available in January.

Equity release products are crucial in helping to meet current needs and avoid a later life lending drought, with heightened interest rates and affordability tests making capital repayment or interest-only options harder for older borrowers to access.

Products have therefore managed to keep evolving, with new providers and features adding to their appeal. The use of technology has also grown in prominence, as the sector explores new ways to ensure the most suitable products are being identified for equity release customers.

Increasing flexibility has brought lifetime mortgages closer to their residential

equivalents, by offering capital or interest payment options alongside long-term protections against rising interest rates and negative equity.

Furthermore, standards developed by the Equity Release Council have helped to underpin high customer satisfaction and low complaint rates, ultimately serving to bring equity release into the mainstream of financial services and encourage more firms into the market.

The Financial Conduct Authority's recent Consumer Duty also serves as a reminder for firms operating in the equity release space to consider customers' best interests.

Equity release is not without its pitfalls, and advice, both financial and legal, remains vital to helping older customers understand their options. This means there is a greater need than ever for new tools and innovation in the equity release market, as it strives to evolve, maintains its course for growth, and continues to rebuild.

# Navigating the future of equity release

Air's commitment to comprehensive conversations and good customer outcomes

**Paul Glynn, CEO, Air Group**

**T**he Later Life Lending sector is experiencing ongoing transformation, driven by changing products as well as Consumer Duty and regulatory expectations.

At Air, we see this as an opportunity to work with our partners and support positive change in the industry.

In this piece, we'll explore the catalysts behind these changes and how Air is working to open more comprehensive conversations, building safer tracks to help you deliver good customer outcomes.

## Adapting to market changes and regulatory expectations

2022's mini-Budget introduced higher interest rates and lower LTVs, adding pressure to the business models of many equity release firms. Further challenges came from the FCA's in-depth market review, which revealed that some firms were having insufficient discussions around alternative options, inadequately considering income and expenditure and held a bias to recommending lifetime mortgages.

However, the introduction of Consumer Duty in 2023 marked a pivotal moment of change for shifting the industry's focus from fair customer treatment to providing the good outcome for customers.

Recognising the new challenges faced by advisers, Air has worked tirelessly to build our panoramic "comprehensive conversations" – a suite of tools guided by our safer tracks philosophy, guiding advisers through educational modules, sourcing

and assessment tools to ensure advisers could seamlessly pivot to providing comprehensive, compliant advice that focuses on client affordability and vulnerability at heart, highlighting the most optimal products and services to recommend.

## A fresh focus: affordability and comprehensive consideration

Prioritising affordability and conducting a holistic assessment of product options are paramount in the later life lending sector. By determining a customer's repayment capacity, and effectively assessing eligibility, you can help manage borrowing costs and recommend the suitable outcome.

## Later Life Lending Navigator tool

To assist in this shift in focus, Air has developed the Later Life Lending Navigator tool to help advisers assess client affordability, identify suitable later life lending options, and help them document the rationale behind their recommendations.

## Enhanced LIBF-accredited Air Academy modules

We're committed to enhancing our LIBF-accredited training modules to equip advisers with the knowledge and skills needed to navigate the challenges of today's later life lending market.

## Corporate Partner Endorsed WriteRoute

And finally, our in-depth fact-finding tool, WriteRoute, has been revamped and endorsed by a wide range of corporate partners. This second version includes additional mandatory affordability and customer vulnerability assessments, placing these critical aspects at the forefront of the advice process.

## Comprehensive conversations for improved outcomes

The FCA's review of the equity release sector exposed areas that required immediate attention. While it recognised that the firms involved in the review had already initiated changes, the sector is still evolving.



This includes a fundamental shift in philosophy, with a more pronounced focus on affordability and alternative options. Lenders are also bridging the gap between lifetime mortgages and traditional mortgages by introducing innovative products to engage older borrowers, such as the new payment-term lifetime mortgages.

## In conclusion

The Later Life Lending sector is in the midst of important change. At Air, our innovative tools, such as the Later Life Lending Navigator tool and Corporate Partner Endorsed WriteRoute, as well as our LIBF-accredited Air Academy training modules, have been created to help advisers and firms embrace this evolving landscape.

As an industry, we have a responsibility to deliver the good customer outcome. At Air, we believe that begins with comprehensive conversations. We want to give our members tools and confidence that they're delivering what's right for their clients.

Speak to a member of our team for more information on how we could support you and/or your firm **call 0800 294 5097 or email [sourcing.enquiries@airlaterlife.co.uk](mailto:sourcing.enquiries@airlaterlife.co.uk)**



## Case study: Using Air's Later Life Lending Navigator to deliver better customer outcomes

This case study looks at how the Later Life Lending Navigator tool can help advice firms face the challenge of a changing advice process, including further considerations into affordability, looking at both later life lending and traditional mortgage products for the most suitable later lending option.

Air's tools are a key facet for introducing comprehensive conversations to support firms making a shift in their equity release advice philosophy. By putting affordability at the heart of the discussion, we can help advisers personalise the advice journey and support them in delivering good customer outcomes.

Our latest tool, the Later Life Lending Navigator, was built with the help of advisers to support with these considerations during the advice process.

### Understanding your clients

In this scenario, both sets of clients are in very different financial situations. And while all would be eligible for a lifetime mortgage, understanding their affordability and appetite towards repayments will help determine whether it's a good customer outcome.

### Using the Later Life Lending Navigator tool to secure better customer outcomes

By using Air's Later Life Lending Navigator tool, an adviser is able to understand both sets of clients' priorities and suitability for each of their available financial options.

Name	Paul and Sophia Hinchcliffe	Deborah Stewart
Age(s)	57 & 55	71
Property Value	£291,000	
Release Amount	£55,000	
Pre-retirement Monthly Income	£4,650	£1,500
Post-retirement monthly income	£2,200	£1,500
Current Monthly Outgoings	£2,200	£1,100
Pre-retirement Repayment Budget	£1,480	N/A
Post-retirement Repayment Budget	£480	£150

Graph 1: Details from the initial fact find

Name	Paul and Sophia Hinchcliffe	Deborah Stewart
Can commit to monthly repayments now and in the future	Agree	Disagree
Want and intend to make monthly repayments	Agree	Disagree
Flexibility is more important than reducing the total cost of borrowing	Disagree	Agree
Want a fixed rate for life	Neither agree/disagree	Agree
May be able to repay mortgage in future, so low ERCs are important	Agree	Neither agree/disagree
Living comfortable is more important than retaining equity	Neither agree/disagree	Agree
Open to compound interest products	Disagree	Agree

Graph 2: Assessment for client priorities



### Paul and Sophia

As a result of the adviser's assessment, Paul and Sophia Hinchcliffe could be suitable for a standard residential or lifetime mortgage. However, as the clients have expressed an appetite and ability to make regular repayments, are against the idea of a compound interest product and are striving for the lowest total cost of borrowing, in this scenario, a residential mortgage would appear to be the most suitable option.

#### Potentially suitable customer outcome:

Residential Mortgage

### Deborah Stewart

Deborah's scenario is different. Having retired and looking to reduce her monthly outgoings, Deborah is open to compound interest products and sees repayment flexibility as more important than reducing her total cost of borrowing.

Given her age, income and required release amount, she's also unable to guarantee that she'll be able to meet regular repayments in the future. As a result, she's probably not eligible for a standard residential mortgage or RIO, and a lifetime mortgage would appear to be a suitable option to explore for Deborah's needs.

#### Potentially suitable customer outcome:

Lifetime Mortgage

### The importance of a personalised advice journey

While all of the clients above are eligible for a lifetime mortgage, it's not always the only product option, or the most suitable customer outcome - as is shown in the case of Mr and Mrs Hinchcliffe.

At a glance, a residential or RIO mortgage also look like they could provide a solution for Deborah Stewart, but gaining a better understanding of her priorities, and being able to document them through Air's Later Life Lending Navigator tool, helps ensure the advice and product she receives is suitable for her circumstances.

Through Air's safer tracks, such as the Later Life Lending Navigator tool, LIBF-accredited Air Academy and our recently updated fact-find software – Corporate Partner Endorsed WriteRoute - advisers can take a more comprehensive view of their clients' needs in alignment with Consumer Duty and help support the delivery of good customer outcomes.

Speak to a member of our team for more information on how we could support you and/or your firm **call 0800 294 5097** or email [sourcing.enquiries@airlaterlife.co.uk](mailto:sourcing.enquiries@airlaterlife.co.uk).

Paul and Sophia Hinchcliffe	Standard Residential Mortgage	RIO	Lifetime Mortgage
Age	Green	Green	Green
LTV	Green	Green	Green
Calculated Affordability	Green	Red	N/A
Customer Preferred Affordability	Green	Yellow	N/A
Eligibility	Green	Red	Green

Graph 3: Paul and Sophia's product type suitability

Deborah Stewart	Standard Residential Mortgage	RIO	Lifetime Mortgage
Age	Green	Green	Green
LTV	Green	Green	Green
Calculated Affordability	Red	Red	N/A
Customer Preferred Affordability	Red	Yellow	N/A
Eligibility	Red	Red	Green

Graph 4: Deborah's product type suitability



When the Financial Conduct Authority (FCA) brought in its Consumer Duty, it expected the new requirements to improve outcomes for consumers in all areas of business between firms and customers.

The Duty means that consumers should be receiving communications they can understand, products and services that meet their needs and offer fair value, and that they get the customer support they need, when they need it.

Air's Later Life Navigator tool has been developed to support advisers with the Consumer Duty in mind.

By prioritising affordability and conducting a holistic assessment of product options, Air is providing a way to help advisers determine a customer's repayment capacity and help them understand their options and borrowing costs.

The Later Life Lending Navigator tool, which advisers helped to design for advisers, and which has been reviewed by stakeholders across the sector, has aims to help firms hit the key pillars of Consumer Duty.

For the later life lending market as a whole to continue its growth, Air's innovative tool is the sort of evolution that is needed.

It can help to bridge the gap between lifetime mortgages and traditional mortgages as new, innovative products engage older borrowers and provide them with a more comprehensive range of solutions.

Borrowers who are considering an equity release plan should, as always, first seek financial advice to navigate the abundance of deals and choose the right product that suits their circumstances.

Lifetime mortgages have several important factors to consider, such as compound interest, drawdown, as well as the potential impact on passing inheritance onto family members.

If the equity release market continues to display resilience and we continue to see lifetime mortgage rates come down, while at



## Conclusion

Innovations like Air's Later Life Navigator tool showcase the positive impact of the FCA's Consumer Duty on the equity release market

**Michael Griffiths, News Editor, MoneyAge**

the same time the number of product deals available to borrowers keeps climbing, then Air's Later Life Navigator tool itself can only rise in value to its users.

Advisers are constantly looking for new ways to innovate and Air's tool can be a vital service for those advisers looking to chart a course through the complexities of the equity release sector.

By putting affordability front and centre, advisers can ensure a wider range of alternative borrowing options are fully considered. By also establishing what a customer

can commit to in terms of making repayments, advisers can then determine the products they're eligible for with confidence.

Together, this can allow advisers to help the country's older generation mitigate the cost of borrowing, and ultimately ease the cost of living.

These attitudes will ensure that advice standards remain high across the later life lending sector and most importantly that borrowers continue to secure the good customer outcomes that equity release needs to provide.



The platform for later life  
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# Where Consumer Duty and lending success go hand-in-hand

... ensure better customer outcomes and business growth with Air

Air not only lives and breathes your success, we help you provide the right products in the right way to your customers.

Through cutting-edge technology you can source those products in real-time, all supported by knowledge and expertise that not only helps you meet your Consumer Duty obligations, but grow a more successful business. That's because, from Air Academy to Air Marketing, Air Club to Air Ambassadors, you'll have unrivalled access to training, lead generation and expert peer advice. When it comes to the market challenges of later life lending, it really is a breath of fresh Air.

A more empowering  
way to better business

Visit: [airlaterlife.co.uk](https://airlaterlife.co.uk)  
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