Later Life Lending: An Exercise In Market Resilience Through Constant Development

Modern day lifetime mortgages give customers flexibility and choice.

It's no secret that the later life lending sector has faced challenges in recent times, as underlined by the most recent figures from the Equity Release Council. The Q1 statistics have only served to highlight the extent to which higher interest rates following the 2022 Truss mini-budget, and eroded consumer confidence courtesy of wider economic and political stability, have caused people to take stock when it comes to making major financial decisions.

However, it could also be argued that the statistics don't tell the full story. Back in 2018 lifetime mortgage rates were in a very similar place to where they are now, and the market celebrated the milestone of £1bn of total lending – and while last year we saw a drop from the market's peak, it still represented £2.6bn of lending under comparable market conditions.

Not only that, but even amid the current climate, applicants are still prepared to take out money for aspirational means – a far cry from the 'product of last resort' descriptor that sometimes gets talked about. Our own Q1 data shows that one in five new applicants used the funds for either cars or holidays, while also highlighting that one in five new loans were also taken out by people who owned properties of at least £550,000, underlining the broad spectrum of people now using later life lending to achieve their financial goals.

We've also seen new standards introduced (including all new plans having to offer penalty-free optional repayments) to help deliver best outcomes thanks to the hard work of the Equity Release Council, helping to make the sector a customer-first sector that resonates with a wide variety of demographic cohorts.

This has contributed enormously to heightened market resilience over recent years – as has ongoing product development that has helped to offer consumers greater flexibility in how they use their lifetime mortgage as part of their wider retirement planning. Take plan type as an example: the Council's latest figures point to an uptick in the proportion of customers choosing a drawdown in Q1, representing a 9% swing over the span of two years and, at 56%, the majority of new plans taken out this year.

Even amid the current consumer culture of 'wait and see' when it comes to major financial decisions finances ahead of mooted reduced interest rates over the summer, consumers are able to take out an initial advance to suit their needs now at current interest rates, while still holding a cash reserve to give themselves options. This affords consumers who've no immediate need for the funds in reserve the ability to access it when they need to when rates have reduced, and they can make cash releases at that day's prevailing rate. This has clearly resonated with consumers as demonstrated by the 4% reduction of initial advance size among drawdown customers on a quarterly basis according to Council figures, but an increase in cash reserve amount by 35% over the same period.

As a lender firmly believing in offering consumers choice, and in developing our product range, we were pleased to have offered a drawdown facility on our Emerald range last month as part of a wider suite of enhancements, meaning that all of our ranges now offer drawdown options as standard. This mindset has also extended to recently increasing our LTVs on both our Classic and Emerald ranges, giving greater possibilities to those wanting higher borrowing amounts as a proportion of property value.

There's cautious optimism in the market that we'll see a marked uplift in activity in the event of rate reductions, but in the meantime, it's gratifying to see the market focusing on delivering the best products and helping to achieve the best outcomes among those who are currently exploring later life lending. Product and standards development have certainly contributed to the market's growth and resilience in years gone by, and will remain a cornerstone going forward.

We'll look forward to putting this mentality front and centre, as we've always done, and to welcoming customers both present and future to a modern later life lending sector built around flexibility and choice.

Paul Carter, CEO,
Pure Retirement