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Market monitor

Equity release performance in the UK

Half year 2020

Welcome

Key's Market Monitor provides a quarterly, half yearly and annual review of the UK's equity release market:

WILL HALE
CEO of Key

Having worked in financial services for a number of years, I can confidently say the challenges that we have faced in the first six months of 2020 are beyond what most of us could ever have imagined. It's been challenging as businesses have had to reinvent their models and safeguard jobs while keeping the fact that their customers are likely to be more vulnerable at this time at the forefront of their minds.

In H1 2020, we saw 19,869 (H1 2019 – 22,126) people take out equity release plans – releasing £1.47billion (H1 2019 - £1.68 billion) worth of new borrowing. Having enjoyed a buoyant Q1, much of this change was driven by Q2 when we saw a 27% fall in the number of customers (11,495 to 8,374) and a 45% fall in the amount of new equity released (£949 million to £521 million).

As the market changed quarter on quarter so did customer habits with more over-55s using equity release to reduce their debt burden (+7% to 44%) while spending on holidays (-4% to 4%) and home improvements (-3% to 14%) dropped. At Key, we made a conscious choice to focus on supporting those customers who had pressing immediate needs rather than unfulfilled aspirations and this to my mind drove better more sustainable outcomes.

While it is hard to predict with any accuracy what the market might look like at the end of 2020, what we can say is that demand remains strong and now more than ever there is a focus on providing the right type of advice for customers.

Far from shoehorning people into unsuitable products, less than 10% of those who contact Key end up taking out equity release and I suspect that this is a trend seen by other brokers too. Instead, these customers move house, find support from family or decide that this is an option that isn't right for them at the moment but might be something to discuss further in future.

As an industry, we are learning the lessons that Covid-19 is teaching us and while 2020 may not be remembered for being a year of double digit growth, I suspect we will come out stronger with better systems in place and an even firmer customer focus.

Contents

Methodology

Key is the leading over 55s specialist adviser and the UK's number one equity release specialist. It comprises of Key Equity Release and The Equity Release Experts.

Our Market Monitor uses the company's detailed data to reflect the market as a whole and provides the most detailed analysis of equity release in the UK, alongside historical comparisons.

In addition, we focus on a particular area and also a specific usage driver for releasing equity. This quarter it will be the South West and unsecured debt respectively.

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H1 2020 Overview

The first half of 2020 has certainly been a six month period no one could predict, the impact of Covid-19 has been felt across all financial services markets including equity release and the later life lending sector.

In H1 2019 the total market size including available drawdown facility was £2.4 billion, in H1 2020 the total market size is £2.1 billion, a year on year decrease driven by current socio-economic conditions. As might be imagined much of the growth was seen in Q1 before we saw a significant slowdown in Q2.

There was a 10% decrease YOY in the number of plans taken out from 22,126 (H1 2019) to 19,869 (H1 2020). The value of new plans also saw a 12% decrease from £1.68 billion to £1.47bn in 2020.
With consumers choosing to play it as safe as possible in Q1 2020, there was a 12% increase in the value of drawdown reserved - £340 million in 2019 to £390 million in 2020. However, across H1 as a whole drawdown is actually 12% down year on year from £706 million to £624 million – highlighting the impact coronavirus has had on the industry in the second quarter of the year.

Given the unprecedented circumstances the UK and world finds itself in due to Covid-19, the equity release market has been remarkably resilient – especially given the political and economic uncertainty we also saw in 2019.

Customers are remaining cautious when choosing the amount they wish to release, there was a 3% decrease in the average loan amount from £76,064 (H1 2019) to £74,014 (H1 2020). The average property values of those who have taken out equity release have remained roughly the same - 1% increase YOY from £318,571 to £321,209.

With rates remaining relatively low, 12% of customers are choosing to switch from an existing equity release plan to either reduce their interest rates or increase their borrowing - this is a 7% increase YOY. Interestingly there was a 2% increase in the number of customer taking out equity release to help with regular bills.

Up to half of customers (48%) take out equity release to pay off some form of debt – either through repayment of unsecured debt (29%) or mortgage debt (19%).

Gifting remains popular with 29% of customers using equity release to gift to friends and/or family. The average age for those releasing equity in 2020 remained relatively static at 70 (71 – H1 2019).

When we look at the UK in terms of the number of plans taken out London and the South East remain on top – reflecting population density and property value. Almost a third of equity release plans (30%) are taken out in the South East and nearly a fifth are taken out in London (17%). The lowest percentage is Northern Ireland which is not surprising due to lower population figures and reduced product availability.

When taking a view across the UK at the number of equity release plans taken out the South East retains its top spot with 4,879 plans taken out (-10% YOY). London – which typically sees the second highest number of equity release customers in the UK – slipped to fourth place as it experienced a 24% drop in the number of people using these products (1,762).

Instead, the South West saw 2,266 new plans taken out and the North West came in third place with 1,983 new plans. That said, the South East (£484 million) and London (£281 million) saw the highest value of equity release in the UK due to the high property prices in the Capital and commuter belt.

	(Q1 2020 vs. Q2 2020)			
	H1 2019	**H1 2020**	**Q1 2020**	**Q2 2020**
Number of customers	22,126	19,869	11,495	8,374
Value of new plans taken out	£1.68 billion	£1.47 billion	£949 million	£521 million
Total value of plans	£2.4 billion	£2.1 billion	£1.32 billion	£767 million

	Lending Mix
Area	**%**
East Anglia	6%
East Midlands	6%
London	17%
North East	2%
North West	7%
Northern Ireland	1%
Scotland	4%
South East	30%
South West	**12%**
Wales	3%
West Midlands	7%
Yorkshire & Humberside	5%
Total	**100%**

Value of plans

HIGHEST
£434m
South East
▼ Down 9% on H1, 2019

LOWEST
£9.2m
Northern Ireland
▼ Down 10% on H1, 2019

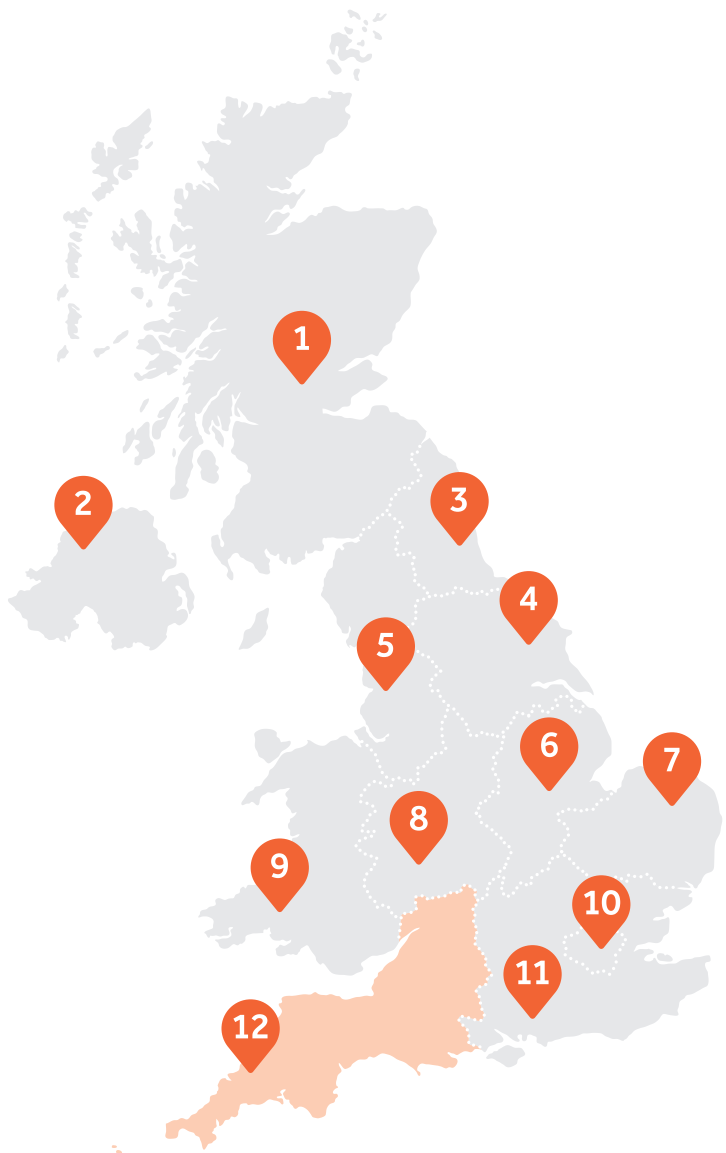
Number of plans

HIGHEST
4,879
South East
▼ Down 10% on H1, 2019

LOWEST
191
Northern Ireland
▼ Down 9% on H1, 2019

UK areas

1. Scotland
2. Northern Ireland
3. North East
4. Yorkshire & Humberside
5. North West
6. East Midlands
7. East Anglia
8. West Midlands
9. Wales
10. London
11. South East
12. **South West**



Spotlight on Q1 2020 vs. Q2 2020

While most of us were aware of the or Covid-19 at the start of the year, very few could have predicted how it has played out on both a local and international level. In Q1 2020, we saw £949 million worth of equity withdrawn via 11,495 plans which when added to drawdown and additional borrowing suggested a total market size of £1.32 billion.

With lockdown being introduced on 23 March 2020, Q2 2020 got off to an extremely challenging start. Typical equity release customers were self-isolating due to their age, lenders were working to introduce new systems and brokers such as Key were moving from face-to-face advice to telephone and video offerings.

Taking a long term perspective around customer outcomes and the integrity of the sector, Key chose to adapt its advice philosophy to focus on supporting customers with pressing needs such as mortgage repayment rather than unmet desires for holidays. Indeed, we saw the amount of housing equity set aside for home improvements fall from 17% (Q1) to 14% (Q2) and the amount spent on holidays also dropped from 8% (Q1) to 4% (Q2) while the amount used for debt repayment climbed from 37% (Q1) to (Q2).

Using its advanced advice delivery platform Key was also able to quickly imbed additional checks around vulnerability into the process and ensure that its advisers – all of whom kept working during the pandemic – focused on helping customers to make choices which were sustainable both in the long and short term.

In Q2 2020, we saw £520.7 million worth of equity withdrawn via 8,374 plans which when added to drawdown and additional borrowing suggests a total market size of £767 million. A very different picture from Q2 2019, when we saw £843.4 million worth of equity withdrawn via 10.936 plans for a total market size of £1.2 billion. As with other areas of the mortgage market, the later life lending market has been hit by the impact of Covid-19 but the underlying demand and need remains constant so all things being equal, we expect Q3 2020 to be more in line with Q3 2019 and market expectations.

Product Features

Not only are we seeing more equity release products on the market average of 387 products on the market in H1 2020 but we are seeing more flexible lending features and options for customers to find the right product for their individual circumstances.

These include the ability to make monthly interest repayments, penalty free capital repayments and include downsizing or inheritance protection. In H1 2020, 51% of all products offered downsizing protection and 29% of products offered inheritance protection.

While the average age of an equity release customer is early 70s, younger borrowers also use these products – often to repay outstanding mortgage balances so the ability to make ongoing payments could help to manage this borrowing. In H1 2020, 41% of all products on the market had an interest payment option and 63% allowed penalty free capital repayments within certain lender agree parameters (e.g. up to 10% of the capital can be repaid per year).

Drawdown vs. Lump Sum

Across all plans taken out in H1 2020, 72% were drawdown products and 28% were lump sum. With drawdown plans allowing a customer to reserve a set amount which they can then draw on over the life of the loan, some customers used this flexibility to help manage their borrowing. However, with these products boasting highly competitive interest rates, others chose to take all or a significant proportion of the borrowing in one initial lump sum as it suited their individual circumstances better.

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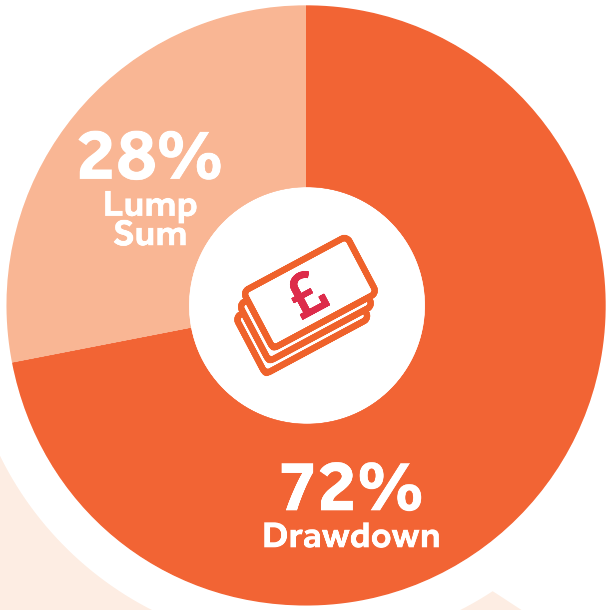


The effect of interest rates

In H1 2020, interest rates started from 2.57% with the average customer taking out a product with a rate of 3.18% in Q2 and 3.10% in Q1. With 24% of the proceeds of equity release being used to repay an outstanding mortgage, it is interesting to note that these rates are fixed for life and not significantly different from the average SVR that someone might be paying (Bank of England – 3.19%).

The median interest rate that an equity release customer has been steadily falling over the last year and a half from 4.33% (Q1 2019) to 3.10% (Q1 2020). However, it rose marginally in Q2 2020 as lenders reacted to the current pandemic by removing some of their product options.

	Average Interest Rate					
	2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2
Median Interest Rate	4.33%	3.92%	3.72%	3.15%	3.10%	3.18%

The impact of age

Analysis suggests that younger borrowers (i.e. those under 65) take out equity release to fulfil a specific pressing need – often the repayment of debts (54%) – while older borrowers look to support their families (36%). Given the fact that they can borrow less due to their age and need a lump sum, these products are more popular amongst younger age groups.

	Product breakdown based on age		
Quarter of Issued Date	**Age**	**Drawdown**	**Lump Sum**
2020 Q1	55-59	27.56%	72.44%
2020 Q1	60-64	34.03%	65.97%
2020 Q1	65-69	44.19%	55.81%
2020 Q1	70-74	50.88%	49.12%
2020 Q1	75+	53.94%	46.06%
2020 Q2	55-59	29.98%	70.02%
2020 Q2	60-64	40.83%	59.17%
2020 Q2	65-69	43.44%	56.56%
2020 Q2	70-74	47.88%	52.12%
2020 Q2	75+	54.78%	45.22%

The effect of LTV's

As outlined above, the older a customer is the higher the LTV they can borrow but most customers are not looking to borrow the maximum amount – although we have seen a YOY increase in the LTV's borrowed by equity release customers potentially driven by relatively static house prices but steadily growing average releases.

Interestingly, the over80s who have historically taken out the highest LTV – potentially due to the fact that they are the age group with the highest propensity to gift – are only borrowing an average of 38.57%.

	The effect of LTV's	
Age	**H1 2019**	**H1 2020**
55-59	23.48%	23.89%
60-64	26.9%	27.41%
65-69	29.63%	30.75%
70-74	31.71%	33.78%
75-79	33.52%	34.55%
80-84	35.51%	38.57%
85+	36.81%	37.53%

Equity Release Uses

At the end of 2019, Key launched its new market leading advice delivery platform which allows its advisers to capture more in-depth data on customer needs, preferences and reasons for using equity release than ever before

We can now say that while 59% of people use equity release to improve their home or their garden, only 16% of the proceeds of equity release are used for this reason – suggesting that while it is popular, it is not typically the driving force behind these decisions. The same is true with holidays – 32% of people spend money on holidays but only 6% of the value of the equity released.

Instead debt – with 29% of people using equity release to repay unsecured borrowing and 19% using it to repay an outstanding mortgage – is the largest driver with 41% of the proceeds being used to manage payments [see following page for spotlight on unsecured debt]. A quarter of people (24%) use equity release to gift with 21% of the proceeds of being used to support family or friends. Of those who gifted, help with house deposits (40%), pre-inheritance (24%) and debt repayment (11%) were popular uses.

With Q2 2020 being an extremely uncertain time for most people, it is interesting to note that we have seen the amount spent on holidays halve (-4% to 4%) and the amount spent on home or garden renovations fall as well (-3% to 14%). Gifting – potentially to help struggling family members has remained consistent while repaying mortgages (+6% to 31%) has risen in popularity as older borrowers prepare for challenging economic times ahead.

	The Uses of Equity Release	
Proportion of Customers	**Q1 2020**	**Q2 2020**
Home/Garden Renovations	17%	14%
Repay mortgages	25%	31%
Repay debt	12%	13%
Holidays	8%	4%
Gifting	21%	21%

Value of equity release by usage

16% improve their home and/ or garden

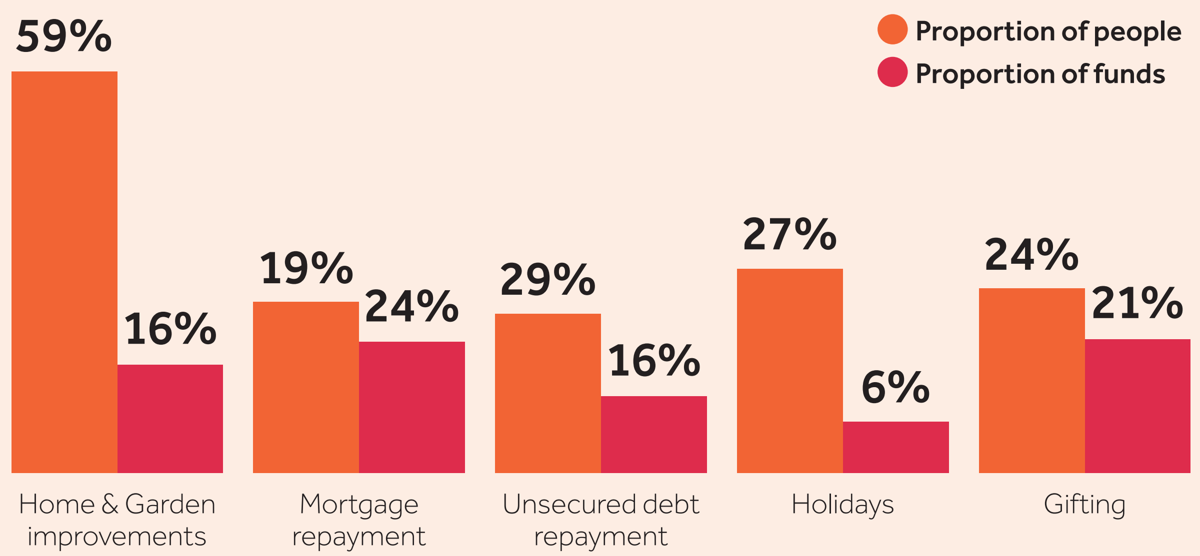
16% paying off debts (e.g. loans, credit cards)

6% go on holiday

24% clear their outstanding mortgage

21% gift money to their family or friends

Value of equity released vs. proportion of people using equity release



Spotlight on unsecured debt

While most people hope to reach retirement debt-free, this is not necessarily the reality for many of today's over-55s who find that secured (i.e. mortgages) or unsecured (i.e. credit cards) debt mean they need to work longer. Although this may be practical for some, others find that health issues or lack of secure employment opportunities means that they are scrambling to make minimum repayments rather than actually making progress.

Debt breakdown (including mortgages)		
Debt Reasons	**Proportion of the Amount Released**	**Av. Amount Used**
Loans	**11%**	**£12,728**
Car finance	1%	£10,388
Mortgage	68%	£53,388
Overdraft	1%	£6,494
Credit cards	**13%**	**£11,640**
Other*	3%	£14,532

Up to half (48%) of people use equity to repay borrowing (secure or unsecure) with 41% of the proceeds being used for this purpose [see case study on pg 24 for an idea on how it works]. Of those who repay borrowing, the most common use is mortgage (68%) followed by credit card debts (13%) and personal loans (11%). In Q1 2020 this section focused on mortgage repayments, for H1 2020 the spotlight is on unsecured debt.

While 19% of the proportion of equity release used to repay debt is used to repay mortgage borrowing, 29% is used to clear other borrowing which may be holding someone back from retiring. The most common type of unsecured borrowing is credit cards (13%), loans (11%) and other (3%).

For the customers who used equity release to pay off debt, the average credit card debt due to be repaid is £11,640 and the average loan is £12,278. While 0% credit cards can and do offer customers options, they can be harder to get as you get older and with Moneyfacts highlighting that the average credit card APRs in June stood at 25.5% repayments can be crippling for those on a fixed income. ▶

* = Other includes more personal spending such as medical costs, vet costs and large discretionary purchases etc.

Average debt amount based on age

£61,472 is the average mortgage debt for 65-74s, which is greater than people aged 55 to 64 and 75+

	Age range		
Debts	**55–64**	**65–74**	**75+**
Loans	£12,079	£13,257	£12,938
Car finance	£9,660	£8,033	£17,427
Mortgage	£44,235	£61,472	£61,184
Overdraft	£5,613	£7,585	£6,920
Credit cards	£10,538	£12,834	£10,874

The loan to values available to younger age groups are less than those available to the older cohort, so this difference may simply reflect the fact that while they have similar levels of debt, only certain under-65s are able to access equity release to manage this borrowing. Another potential reason behind this is that some customers may look to repay borrowing at a younger age while others struggle on with making repayments until the debt rises before they act in order to retire.

With 5.3 million over-70s with full driving licences in Britain, according to the Driving and Vehicle Licensing Agency, the fact that equity release is used to repay car finance makes sense. Indeed, for those who live outside major cities, maintaining their independence and remaining part of the community can depend on them having reliable transport.

Average debt amount based on status

£57,256 is the average mortgage debt for couples, which is greater than people who are single

	Status		
Debts	**Couple**	**Single female**	**Single male**
Loans	£12,855	£11,947	£13,327
Car finance	£10,234	£8,195	£14,031
Mortgage	£57,256	£41,672	£50,009
Overdraft	£7,330	£3,757	£6,500
Credit cards	£13,438	£8,604	£9,207

While married couples typically have more debt than single women or single men, there are some exceptions to the rule with single men holding more car finance (£14,031) and loans (£13,327) than other groups. The loan to values available to younger age groups are less than those available to the older cohort, so this difference may simply reflect the fact that while they have similar levels of debt, only certain under-65s are able to access equity release to manage this borrowing. Another potential reason behind this is that some customers may look to repay borrowing at a younger age while others struggle on with making repayments until the debt rises before they act in order to retire.

Of those using equity release to pay of mortgages, single men and single females are carrying circa £50,000 and £40,000 of mortgage debt into later life. While it is entirely possible deliberate decisions and financial planning choices led them to this situation, it is also likely that finding themselves divorced, separated or widowed may explain some of this debt.

Demographic analysis

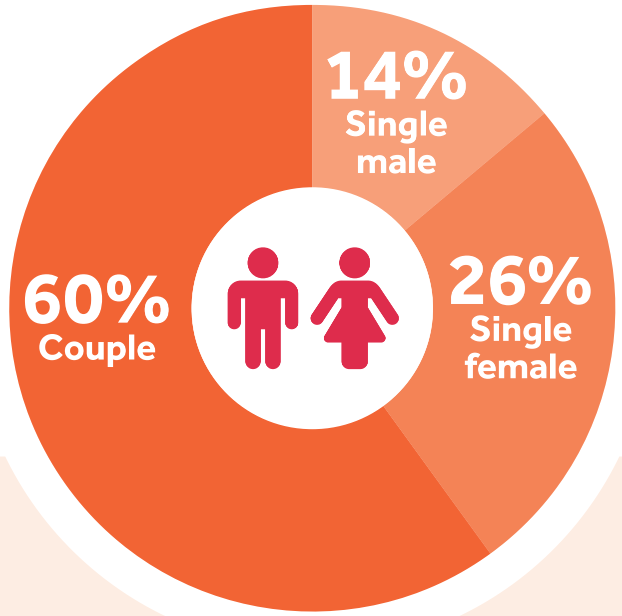
With a significant proportion of over-55s married or in long-term relationships, 60% of plans are taken out by this demographic. Interesting, almost twice as many single women (26%) take out equity release compared to single men (14%). This is likely to be due to a combination of factors including less generous pension pots and at the older ages, the death of a spouse with the resulting impact on household income.

In H1 2020, the average equity release customer is 70 years old which is a slight decrease from H1 2019 (71 years old) but an increase from H1 2010 (69 years old). It is interesting to note that the average customer who enquires about equity release is 65-years old which is five-years younger than those who take these products out and further underlines the important role that advisers plan in helping people to make smart sustainable choices around how their housing equity is or isn't used.

As the graphic suggests almost three-quarters (73%) of equity release customers are over-65 with just 8% being younger than 60 years old. While even this small number of customers taking out a product which can incur compound interest may be of concern, specialist advisers do discuss this potential with customers thoroughly and 41% of products offer the ability to make interest payments to mitigate these challenges. Almost two-thirds of products (63%) also offer the ability to make some adhoc capital repayments to manage borrowing.

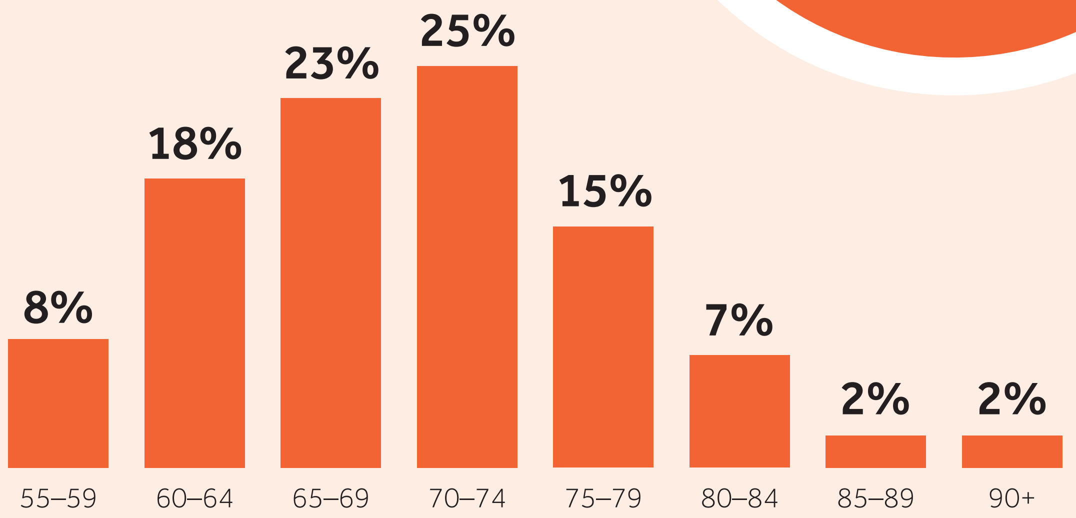
Customers by status

60% of those released equity are couples, up 1% compared to H1 2019



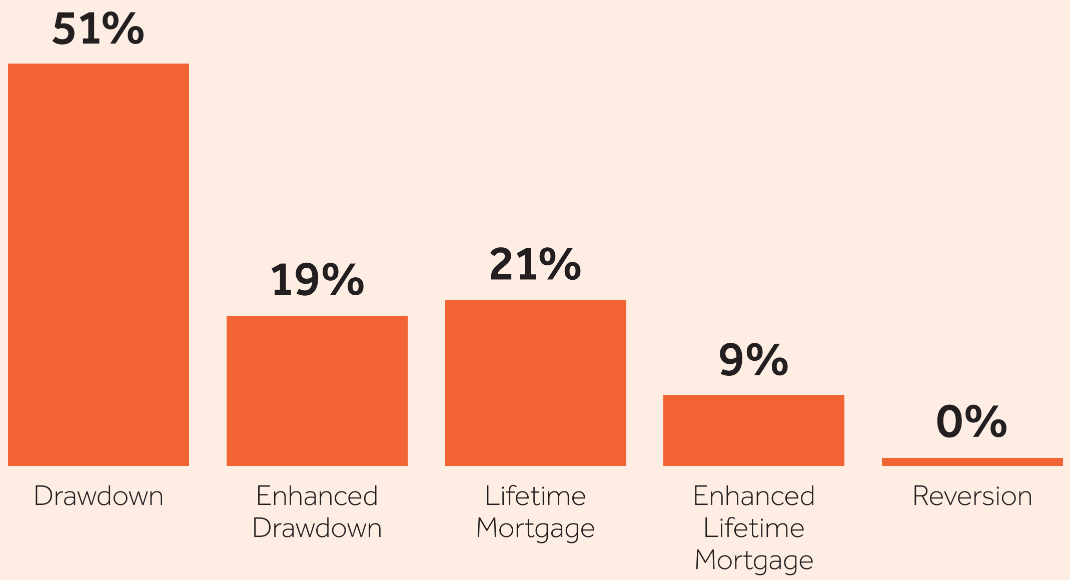
Customers by age

The average age has dropped slightly to 70 when compared to H1 2019 where the average age was 71



Product mix

A plan with a drawdown facility remains the most common type of product taken out



Across the UK

Only two locations out of 12 in the UK experienced an increase in the number of new plans taken out in H1 2020 – North East (7.4%) and South West (1.4%). However, five areas saw an increase in value including South West (7.9%), Yorkshire & Humberside (3.8%) and South East (1.7%).

The South East and London continue to lead the way in terms of valued released with £484 million in the South East (1.7%) and £281 million in London (-5.2%). The South East also continues to lead the way in terms of the number of plans taken out with 4,879 plans taken out in H1 2020 although this is a -10% decrease YOY.

A continuing trend from Q1 2020 is that London has been surpassed in terms of number of plans taken out. In London 1,762 plans were used in H1 2020 a -2.4% reduction. However the South East (4,879), South West (2,266) and North West (1,772) all saw increases in the number of new plans taken out. This could be due to the perception that the property market in the capital is less buoyant and therefore people are being increasingly cautious.

£74,014
Average release amount for the UK
▼ Down 2.7% on H1 2019

Half year results

	Plans				Value released		Property value		Age
Location	**Value**	**% change on H1, 2019**	**Number**	**% change on H1, 2019**	**Average amount**	**Average LTV %**	**Average value**	**% change on H1, 2019**	**Average customer age**
East Anglia	£92,322,234	-24%	1,360	-22%	£67,908	24	£280,087	-1%	69
East Midlands	£92,096,776	-18%	1,556	-14%	£59,192	23	£253,056	-1%	70
London	£252,291,290	-15%	1,762	-24%	£143,157	23	£615,616	7%	72
North East	£32,998,228	-10%	710	7%	£46,478	24	£195,844	-1%	71
North West	£103,443,402	-12%	1,984	-1%	£52,142	23	£228,382	5%	70
Northern Ireland	£9,214,510	-10%	191	-9%	£48,158	27	£175,789	-2%	67
Scotland	£58,496,267	-12%	1,113	-6%	£52,567	24	£222,006	13%	70
South East	£434,291,507	-9%	4,879	-10%	£89,010	22	£403,723	3%	71
South West	**£172,009,625**	**-3%**	**2,266**	**1%**	**£75,914**	**23**	**£333,252**	**0%**	**70**
Wales	£43,578,314	-33%	866	-24%	£50,318	23	£214,661	0%	70
West Midlands	£106,077,391	-14%	1,772	-9%	£59,849	25	£241,073	0%	70
Yorkshire & Humberside	£73,769,622	-7%	1,410	-1%	£52,324	24	£221,131	-2%	70
Total	**£1,470,589,165**	**-13%**	**19,869**	**-10%**	**£74,014**	**23**	**£321,209**	**1%**	**70**

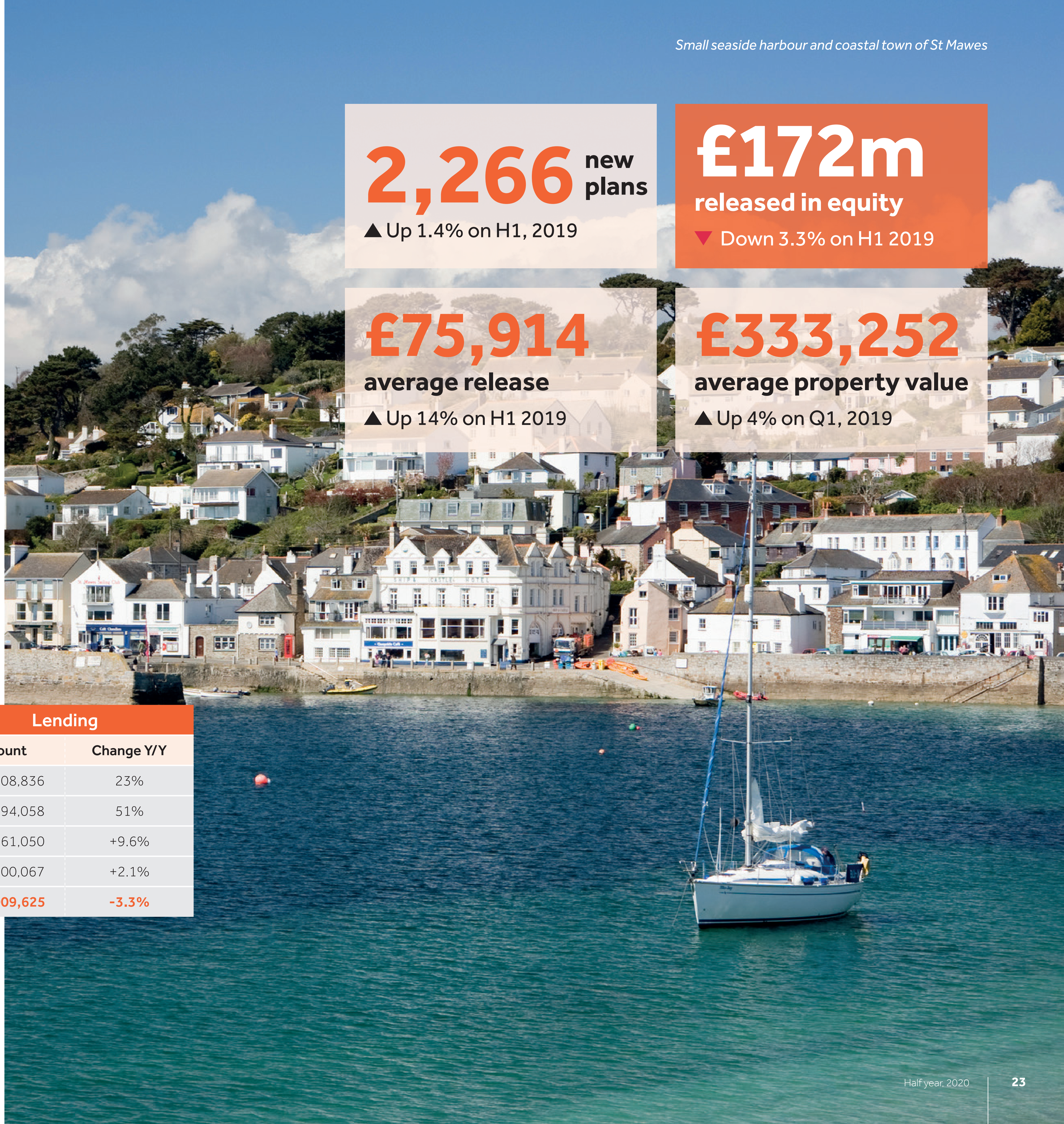
Focus location: South West

The average value released in the South West is £75,914 which is slightly higher (3%) than the UK average of £74,014. However, the average property prices is also higher (4%) in the South West at £333,252, which could account for this difference as there is more equity available to be released in this location. The average age to release equity in the South West is the same as the national average at 70.

It is interesting that the South West is the only region which has experienced an increase in both the number of plans and the average amount released. Over the past five years plan numbers and lending has been fairly stable with increases in both number of plans and value of lending each year. 2017 was a strong year for the South West in terms of equity release plans with a 52% increase in the number of plans and a 52% increase in value – potentially due to the slight downturn in the property market in 2015 and the resulting knock on effects being felt over the following years. The South West has had a positive start to the half of the year despite the impacts of Covid-19. Although some of this was this was due to a strong Q1 in 2020 which saw the region have a 15% increase in the number of plans releases in Q1 YOY.

	Plans		Lending	
Period	**Number**	**Change Y/Y**	**Amount**	**Change Y/Y**
H1 2016	1,443	11%	£105,008,836	23%
H1 2017	2,195	52%	£158,694,058	51%
H1 2018	2,254	2.7%	£173,961,050	+9.6%
H1 2019	2,235	0%	£177,700,067	+2.1%
H1 2020	**2,266**	**+1.4%**	**£172,009,625**	**-3.3%**

Small seaside harbour and coastal town of St Mawes



2,266 new plans

▲ Up 1.4% on H1, 2019

£172m released in equity

▼ Down 3.3% on H1 2019

£75,914 average release

▲ Up 14% on H1 2019

£333,252 average property value

▲ Up 4% on Q1, 2019

Case Study

David Johns, 71 - Somerset, released £54,200 to help pay off his interest only mortgage and credit card debts.

Having retired from his full-time role in procurement in his early-60s, David* and his wife divorced and he found himself needing to take out an interest-only mortgage to keep the family home. He also returned to work on a consultancy basis to keep himself busy and help to repay some of his borrowing but soon found that it was harder than he imagined.

Things came to a head a couple of years later when he had to replace the car he relied upon and the boiler packed up without warning. David faced a financial dilemma and decided to look at how he could reduce his borrowing so he could finally retire.

"It's a lovely home and I have lived here for over 15 years, my children and grandchildren are only down the road but I knew I needed to look at my options to help clear my debts and pay off my mortgage in order to be able to finally afford retirement." said David.

"One option I considered was to sell up and downsize but I really do love this house and I didn't want to move. I spoke to a family friend who recommended I look into equity release as they had successfully used it."

"Key were extremely helpful and given the current situation they arranged a ZOOM appointment call with myself, one of their advisers and my son Jack, who was able to ask any questions he liked. We discussed my circumstances and the best options for me – both now and in the longer term. I'm lucky enough to be fit and active but I know that this can change quickly.

"After much discussion, I chose to take out a drawdown policy as I could pay off my mortgage and credit cards. I'm still doing a bit of consultancy work so it also allows me to make ad hoc capital repayments to help manage the interest if I want to. The whole process with Key was very easy, there was no pressure at all."

"I look forward to enjoying a more relaxed retirement with my grandchildren and in a few years I would love to make it to Greece with my whole family."

* = This case study is fictional and while based on issues faced by people every day, bears no resemblance to a specific person or set of personal circumstances.

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