Market Review

Q1 2023

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more2life
the later life lender

As the ripples left by the shockwave of September's mini Budget and resultant economic turmoil subside, is the later life lending market returning to 'business as usual' or is the road ahead still uncertain?

Red Herrings or Green Shoots: Is it Stop or Go for later life lending?

One of the most obvious and immediate consequences for the lending industry of the financial uncertainty we saw in Q4 was the sudden and substantial rise in interest rates, coupled with the removal of products offering the highest LTVs.

Average rates in the market went from around 5.95% at the beginning of September to 8.29% within 7 weeks and the highest LTVs available in the market – at that point just over 60% - fell to below 50%.

Since then (*Fig 1*), we've seen a gradual return of lenders and lending options - including those from **more2life** - with the number of products available now over 300 (from a December low of 230) and the average interest rate today now standing just 50bps higher than that pre-mini Budget level at 6.45%*. And LTVs of up to 55% are now back on the shelves at certain ages.

So, are these encouraging green shoots of a return to normalcy or just some temporary red herrings? Are we on the road back to a pre-mini Budget world, or does the market need to get used its own version of a "new normal" of higher rates and lower LTVs?

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* Source: Key Group Data, 03/23

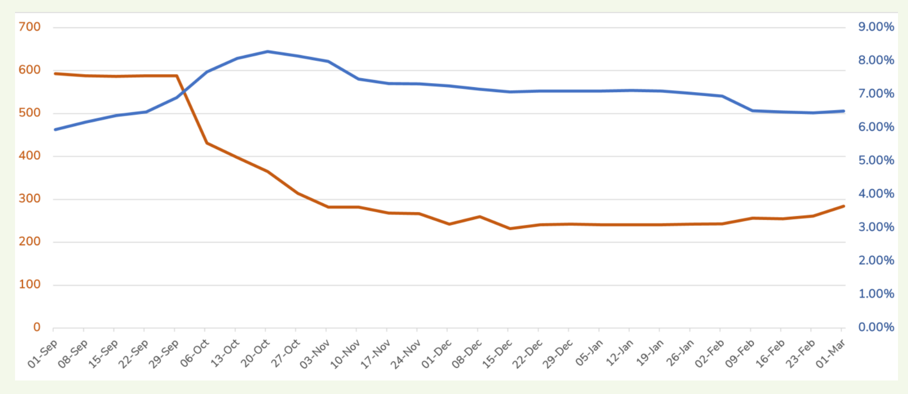

Fig 1. Product count ( ) and average AERs ( ), 1st Sept 2022 > 1st Mar 2023

What next for rates and LTVs?

Interest rates in Lifetime Mortgages are primarily driven by wider macro-economic factors that dictate the UK Government's long term cost of borrowing. They are also influenced however by supply and demand, and by the expected stability of these rates given the lag between Application and Completion is not certain and can sometimes be extensive. While the macro-economic factors could push rates in either direction, the recent stability has seen confidence return and bring with it competitive tension that has seen the spreads over risk free rates steadily reduce, offering customers better value. Continued stability will allow this to be maintained.

The most significant feature of a Lifetime Mortgage that does not exist in other lending is the No Negative Equity Guarantee. In a world of higher interest rates and more uncertain future house price growth, the value of this feature to customers is much higher – and accordingly the risk to a lender is much greater – which drove the removal of the highest max LTVs products last year. The factors that will give lenders confidence to continue to push LTVs wider will be a combination of lower core interest rates and increasing confidence over long term house prices.

The data that has played out so far is showing that the housing values have been coming off, but perhaps not the 'crash' that many predicted in Q4 22, with the market down 3.7% from its peak and encouraging signs in the new mortgage data that this pressure is easing. This return to higher LTVs is likely to be gradual however, and as lenders dip their toes back into the higher risk part of the market they may do so with specific volume limits to make sure they are not overly exposed. This may see the frequency of new products and product removals increasing, creating a more dynamic landscape for advisers. Advisers should obviously be aware that waiting for higher LTVs on the back falling house prices is unlikely to help their clients access higher absolute releases, as their own valuation is likely to have reduced also.

Q3 and beyond: the outlook for later life lending

The return of lenders and products to the market, along with a lowering of interest rates in the first quarter of this year are encouraging signs and certainly there seems to be no lack of consumer demand based on sourcing session data.

Advisers will need to adjust their sights, however, as the narrowing of lending options now presents a more complex picture in terms of addressing the particular needs and delivering the outcomes each customer is after. It's arguably more important than ever that advisers really focus on the specific lending requirements of each customer and open up discussions around the ability to make capital or interest repayments in order to help offset the increased cost of borrowing.

In the immediate short-term, we will likely see more fluctuations in rates - both up and down - plus a gradual return of more lending options. The market right now may be more muted than we are used to at this time of year, but the outlook for the rest of 2023 is increasingly positive.