Market update
H1, 2023

more2life
the later life lender

"As an industry we need to retune and reset our expectations to this **'new normal'**

Roland Steere
Director of Funding at more2life

As the Bank of England base rate reaches a new peak not seen for 15 years, what are the mechanics at play behind the current rate turmoil and what does the future hold for later life lending?

Up until the mini-Budget of September last year, the UK had been enjoying an unprecedented and extended period of stable and exceptionally low interest rates that started after the credit crunch of 2008 and lasted the entire decade that followed. Although rates and long-term gilts had been on the rise during the early to middle part of last year, the volatile bond market reaction to the Government's budgetary announcements pushed us into unchartered territory.

Almost overnight, the low rates and long rate guarantees that had become such a normalised part of our market began to disappear – a chain reaction that accelerated over the following weeks as many participants in this market, from funders to lenders and even advisers, took stock by leaving the market. Within six weeks of the mini-Budget, the average interest rate in the lifetime mortgage market had risen around 250bps as 15 year gilt rates (a key driver of pricing in this market) touched 5%.

Following a brief period of calm in early Q1 where rates started to fall back a little and most of the absent lenders and funders returned to the market, we are now back into a period of turbulence once more. Only this time, the mechanics behind the volatility are very different and later life lending market is much better prepared.

Core interest rates and gilts are back to similar levels of late 2022 and while these prices need to be passed on to later life borrowers (just as they do in other forms of mortgage lending), the later life lending market has regained a firm footing and stronger foundations, with processes built that have allowed everyone to return to the market.

Although product sets are more restricted than before last September – most notably, the highest LTVs available are now typically around 80-85% of what they were back then (see Fig 1) – the market's reaction to the shockwave of Q4 2022, and its resilience to such changes as a result of its maturity and core strength built during the last 30 years of evolution, have helped it recover remarkably quickly.

In many ways, this echoes the market's reaction to the Covid pandemic when the hard-stop of lockdowns and social distancing rules threatened to derail a previously thriving and expanding market. It took just a few weeks to define and execute remote ways of operating a previously face-to-face operational chain in order to get the market back on track.

This time, as the market moves through a further period of rate uncertainty and volatility – caused not by a bond market out of control but by the economic pressures of inflation and the ongoing cost-of-living crisis – lenders like more2life have been working hard to help advisers navigate rapid price movements and volatile flows of business. Customer demand and needs remain as prevalent as ever and we are determined to help advisers service that need.

Indeed, we were able to bring back all of our funding lines very quickly in Q1, including our Prime plan and our market-leading Apex product range which offers the highest LTVs in the market and now ERCs of just four years. This approach has allowed us to offer continuity and stability in the market and we hope the broader market takes the same approach to offer a wider product choice.

As an industry we need to retune and reset our expectations to this "new normal" of higher rates and – at least for the short term – rate uncertainty. These higher rate positions are now driven by data, not overnight market panics to sudden Government monetary policy decisions.

These data point to a prevailing environment where high LTV plans and super-low interest rates are not economically viable. Funding in certain market segments will become more scarce and 'tranche-based' as lenders seek to navigate through a rapidly-shifting market landscape. With prices changing on a daily basis and some product options being in scarcer supply, greater co-operation across the value chain will help more customers access the products they need.

This is why specialist advice has never been more important than it is now. Tens of thousands of later life customers need the help from advisers and the solutions they can recommend in order to achieve a better outcome in retirement. Now more than ever, the multi-trillion pound pool of untapped wealth locked up in the homes of the over-55s has an important role to play in helping deliver a better financial outcome in retirement.

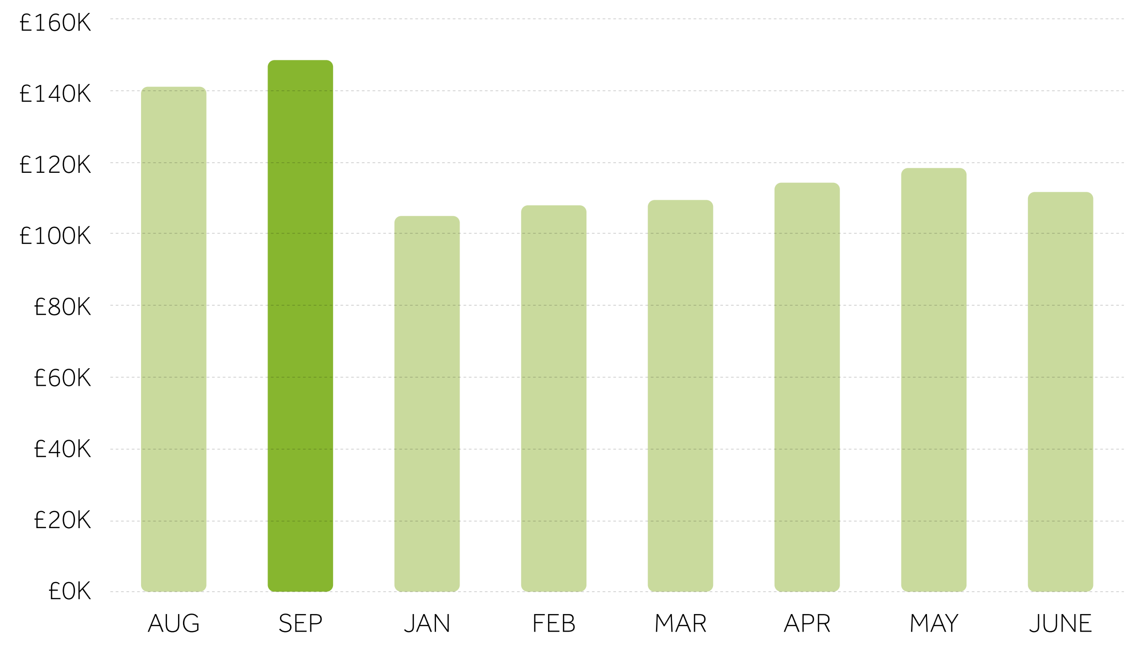

Fig 1. Maximum release for a 70-year-old client with a property value of £300,000, pre- and post-mini Budget

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