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Aviva equity release video script Module 1: Lifetime mortgages – a growing market

Welcome to our equity release CPD modules. In this opening module – the first of four – you'll learn more about how lifetime mortgages, the most common form of equity release, can be used to meet a range of customer needs.

Lifetime mortgages now make up the vast majority of the equity release market.[1] As a result, you often hear these terms used interchangeably. They operate as an alternative mortgage for customers who are 55 or over, but without the monthly repayments. Instead, the loan, including the compound interest, is usually repaid when the house is sold. This tends to happen when the individual passes away or moves into long term care, subject to the provider's terms and conditions.

Or the client may want to pay off part or all of their mortgage early. We offer Voluntary Partial Repayments and fixed Early Repayment Charges for new applicants, giving them that extra flexibility. Lifetime mortgages can be considered for clients with CCJs, IVAs or DMPs, who may not have as many options when it comes to borrowing money.

In the past, advisers and customers often dismissed lifetime mortgages as a last resort for desperate homeowners needing to free up funds in retirement – funds that could've been best left locked up in bricks and mortar.

These days, a lot has changed. In 2004 equity release became regulated by the FCA, ensuring a far greater degree of protection for clients and fundamentally altering the equity release landscape. The FCA released a report in 2020, highlighting their work in ensuring customers are given suitable advice on equity release. The Equity Release Council provides an extra layer of protection for clients interested in equity release. We are members of the Council, which has its own set of rules and a Statement of Principles.

Today, a growing number of clients – even those at the more affluent end of the spectrum – are turning to lifetime mortgages as a good way to unlock the substantial wealth they've built up in their property.

Over 2021, one in five plans taken out was used to support the wider family with older borrowers gifting an average of £58,734 to help loved ones onto the property ladder. While this was certainly boosted by the Stamp Duty Holiday, it has continued to be a factor even after this finished in September 2021 and the idea of 'recycling' housing equity within the family now appears to be an embedded feature of the market. [2]

Over the past decade or so, greater demand has led to rapid innovation, and an increasing number of lifetime mortgage options in the market. And as the market continues to evolve, more and more advisers now understand the critical role that equity release can play in later-life planning and in retirement lending.

To give you an idea of this growth, over-55 homeowners unlocked £4.8bn of property wealth through equity release in 2021. This is a 24% increase in the space of a year, up from £3.9m in 2020[3]

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[1] Mintel, Equity Release Schemes UK, November 2021
[2] Key Market Monitor, Equity Release performance in the UK 2021

The scale of the opportunity continues to grow. The first step towards helping your clients make the most of their retirement – and building your business along the way - is to understand the true scale of the market opportunity.

Let's start by taking a look at what's driving this robust – and growing – demand for equity release in the first place.

The baby boomers hold the majority of the UK's wealth, power and purse strings. So why is this influential generation the biggest user of equity release? Well, while baby boomers are rich in assets, their wealth is tightly tied up in bricks and mortar.

There are three key factors driving demand from this powerful segment:

First, baby boomers are expected to live longer than the generations that went before, with today's 65-year-olds predicted to live almost another 20 years on average[4]. On the face of it, this sounds like good news. But it's good news with strings attached. Clients are still regularly underestimating how long they might live – and that means they're coming up short when it comes to financing their retirement.

A longer life comes with higher costs. Older clients are turning to lifetime mortgages so they can use the money to help them stay in their homes for as long as possible, either by financing adaptions to make their homes more suitable in older age, or by paying for care at home.

These problems could increase in the years to come due to recent pension reforms. Responsibilities for saving have shifted from the state and the employer to the individual – as have responsibilities for managing your money in retirement.

Second, the baby boomers have dramatically different expectations of retirement compared to previous generations. They're not just living longer; they're fitter, they're healthier and they're more active, and they want to stay that way once they retire. They're also more liberal with their cash, spending more and saving less than predecessors, and they want to use that cash to maintain their standard of living into retirement.

Among the over 60s, families are changing shape. As divorce rates rise, people who have been married for decades are starting new phases of their lives in their later years. A lifetime mortgage in these cases is being used to secure the ownership of property following a divorce.

And third, baby boomers know they might need to help the younger generation through some tough financial challenges. Not only do their children have to pay their way through higher education, but they're likely to graduate with more than just their degree – heavy debts will be part of the package. To make matters worse, getting a foot on the first rung of the property ladder is far harder than it used to be, but the cost of renting is stubbornly high too.

How big is the market opportunity?

Napoleon once described the British as a nation of shopkeepers. These days, we're a nation of homeowners, and that points to a huge opportunity for advisers.

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[3] Equity Release Council Q3 2021 ER market statistics

[4] Office for National Statistics, National Life Tables, UK: 2018 to 2020. Contains public sector information licensed under the Open Government Licence v3.0

Data collected from Savills shows that the total value of the UK's housing stock hit a huge £8.4 trillion in 2021, a new record high. the value of housing owned by unmortgaged owner occupiers continued to be the fastest growing housing tenure in 2021, up 12.0% on the year to reach a total of 3.3 trillion.[5]

Data from the Equity Release Council shows that the average house price of new customers taking out equity release is just over £400k.[6]

The equity release market has seen huge growth in recent years with the value of new business rising to nearly £4 billion in 2020[7], and Mintel have forecasted that this value will reach a huge £5.9 billion by 2026[7]. At the same time, the FCA estimates that there are 40,000 interest-only mortgages due to mature each year from now until 2032, in which equity release can provide a potential solution for those retiring with interest-only debt.[8]

Equity release continues to carve out a reputation as a credible, powerful option for retirement lending and there's no doubt it has a crucial role to play in later-life planning. And with the market only set to grow, now is a great time for advisers to establish a strong foothold in this exciting marketplace.

For many clients, a lifetime mortgage could represent a real financial lifeline. But some are still unaware of lifetime mortgages, while others are put off by outdated misconceptions. Making the most of this opportunity calls for a coordinated approach from all parts of the industry, giving a clear and balanced breakdown of equity release's potential benefits.

And this is where you come in.

The first step for all advisers is to include property wealth in your fact find.

Asking your client about their priorities for the future, or their attitude to using property wealth as part of their retirement planning, may spark conversations you wouldn't otherwise have had.

You can also encourage others in your firm to do the same.

To complete your CPD accreditation for this module, read our 'Client conversations fact find' and our 'Customer profile' guide.

In Module Two, we'll take a look at how to go about getting your equity release qualification, and how to refer business.

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[5] Savills UK, Housing stock now worth a record £8.4 trillion, Published 31st January 2022
[6] Equity Release Council, Autumn Report 2021
[7] Mintel Equity Release Schemes UK, November 2021
[8] Residential interest only mortgages – Volumes, concentrations and maturity horizons, FCA and Experian, 2013