

Later life borrowing in a world that's living longer

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for Family Building Society

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To enable research participants to express their views frankly we have not named individual contributors. Much of this document was informed by our interviews and discussions, but the final report is the work of the research team and may not reflect the views of all participants.

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Foreword

Good news—we all know that we are living longer. In Britain in the early 1930s, life expectancy for a man at birth was about 60. By the 1950s, it had risen to about 65. Things improved more slowly in the late 20th century, but by 1971 life expectancy for a man was 68. For a woman it was 72. In 2018, life expectancy was 79 for a man and 83 for a woman.

20 years extra - wow, great! But our financial architecture doesn't reflect how we live today. It's largely left over from when people didn't have that extra 20 years - a time when people had paid off their mortgages in their fifties. The pension system was set up when life expectancies were shorter and interest rates were higher. And life today for those in their twenties is very different to the experience of their parents and grandparents. Our children face student debt, house price inflation and scaled-back pensions. They need help, where the previous generation could be much more self-sufficient.

Of course, our financial architecture has been evolving slowly. Take interest-only mortgages, for example. Unlike a traditional capital and repayment mortgage, people find themselves at the end of their mortgage term with the same debt that they started with, rather than with none and an unencumbered property.

The way financial advice is given has changed too. Independent financial advisers often used to cover savings, investment and mortgages. Now, largely driven by regulation, investment advisers and mortgage advisers are different people. Why does this matter? Well, people's housing equity, their pensions and any savings and investments should really be regarded, holistically, as one pot.

Some of the most interesting changes are around older consumers. Some have started taking or keeping mortgages much later in life. Equity release is now the fastest growing part of the mortgage market (and has the highest rates of commission). Pension freedoms have come in. It is fascinating to begin to understand what older people are doing and why; also what they are not doing and why. That's what this research is about.

It is still early days for this part of the market. Politicians, regulators, financial services providers, even the taxman will have to catch up with developments. Paying for care in later life is a huge unresolved issue. Can we really expect someone in their late twenties to start paying off a mortgage and put money into a pension at the same time? Maybe, in future, people will have a single pot. And older people can leave their pension pots tax-free to their kids but not necessarily their homes - so for tax planning reasons, it can be advantageous to take on a mortgage and spend that money rather than draw a pension! Currently, none of this really fits together sensibly.

Andrew Carnegie famously said that, "The man who dies rich, dies disgraced." He thought money should be used during life for good purposes. Life is uncertain; it is hard to plan accurately. But his underlying point about using your money during your life rather than passing it on after death may increasingly become the norm.

Mark Bogard

Mark Bogard
CEO
Family Building Society

Executive summary

This report examines the drivers of remortgaging and equity release among older home owners in England, based on a survey of customers of the Family Building Society, focus groups, and in-depth interviews with intermediaries and key stakeholders.

Historically, mortgage lenders required loans to be backed not just by the security of the property but also by the main earner's salary, so borrowers had to repay the loan before they retired. But the now-fuzzy boundary between working and retirement and the generous pensions enjoyed by some mean many households do not wish to become debt free in their 60s, and the legacy of interest-only lending means others are not able to.

Thus in the UK as in many other countries there is growing demand for mortgage products for older people both to maintain existing mortgages and to withdraw equity. On the supply side, lenders are looking for ways to grow their markets now that so many people have paid off their mortgages and access to owner-occupation has become more problematic. There is also increasing policy interest in how people can, and should, use their housing wealth.

The research

Our broad research questions were: What types of older people (aged 60+) withdraw equity from their homes? How do they decide between the possible ways of doing so? How do they use the funds released? We used a mixed-methods approach employing secondary source analysis, online surveys, focus group discussions and interviews.

Our sample

A majority of our cohort of 956 respondents were over 60; male; married; home owners; living in a detached house; retired; and had adult children (though not necessarily all these characteristics at once). They had relatively high incomes and homes worth £250,000 plus. So we were looking at people with few financial concerns.

The products

Older households can choose between two main forms of mortgage:

Remortgaging against the unencumbered equity in their home – where the mortgagor continues to pay the interest and capital into retirement and may need to re-finance at intervals. Products include standard mortgages taken out in later life and retirement interest-only mortgages (RIOs).

Equity release mortgages where the borrower obtains a lump sum based on a proportion of the dwelling value and existing mortgage commitments and normally does not make repayments until they die or move into long term care. The typical product now is a lifetime mortgage with a 'no negative equity' guarantee.

Attitudes to using housing wealth

Nearly 25% of our respondents had remortgaged, around a third of whom were simply refinancing an existing mortgage. Only 2.5% had used equity release. Remortgaging was seen as far better than equity release both by respondents and intermediaries. Intermediaries also said that remortgaging was seen as more desirable than downsizing.

Those who had not borrowed were mainly just happy not to do so. Among those who had used these products, almost 70% saw themselves as actively using the value of their home as part of their long-term financial strategy.

How funds are used

The main uses of the funds released were to improve borrowers' existing homes or buy a second home, or to help children and grandchildren in one way or another. Intermediaries gave similar views on how the money was to be used. Importantly paying for care was hardly mentioned by either our sample households or intermediaries.

What lenders offer

There is no consistency amongst the mortgage offers and requirements of different lenders. Intermediaries said that most lenders would lend up to age 80 plus; would look at varying interest streams; and had no defined maximum amount. Some 60% of households who remortgaged moved to another lender when doing so, mainly to extend the mortgage term into older age but also because of their reason for borrowing; and sometimes to get a better interest rate. Most respondents thought there had been improvements in what was offered but more could be done.

Risks, regulation and policy

The products

Consumers themselves were much more concerned about equity release than remortgaging, which felt more like a continuation of what they had always done. Regulators and civil servants generally saw the need for later life products but many felt that the policy framework was still not entirely coherent. There are still important transparency issues, as the details of equity release products in particular are often complex and the real costs unclear. There was also concern about whether providers had enough information to be able to price risk correctly.

Advice

There were concerns about the availability and quality of advice. The training requirements for equity release advisers had been tightened and perhaps need to be tightened further still—but more importantly the structure of the advice system meant few advisers could address the full range of products. Most consumers simply took out what their adviser suggested. A related issue is that people cannot obtain holistic advice—in particular about investments and borrowing—from the same source. This is a matter of ongoing discussion among regulators and civil servants.

Later life lending must be sensitive to the realities of ageing. Borrowers may not remember, in very old age, what they signed up to several years before, and may not have discussed the position with their families. There was concern that some people were realising their equity too early and would find themselves with limited options when, for example, they needed funds to pay for care.

Policy

It was generally accepted that borrowing in later life can help allow the benefits of owner-occupation to be fully realised, and that people should have the right to decide how to use their own wealth. Such borrowing is an alternative to downsizing, which can be desirable for policy reasons—but is only one of many factors that people take into account. Innovation and competition were to be welcomed, but lenders, regulators and advisers should recognise the specific circumstances of this market. Innovations should benefit older borrowers, not expose them to harm.

Introduction

This report examines the drivers of remortgaging and equity release among older home owners in England, based on a survey of customers of the Family Building Society, focus groups, and in-depth interviews with intermediaries and key stakeholders, including HM Treasury and industry. Taking out new loans in older age is strikingly at odds with the stylised picture of the end stages of a housing career, but Family Building Society has observed that most of its mortgage business is remortgaging (often from interest-only loans), and that older customers account for a significant proportion of this.

The report looks at the characteristics of this group of older borrowers, the ways they use the funds released, and how they choose between the possible methods of withdrawing housing equity and their associated financing methods (including downsizing and equity release). We also examine mortgagors' expectations and preferences about their housing situations over the next five to ten years.

These questions are not just of interest to individual borrowers and lenders. The housing equity of older homeowners accounts for a significant chunk of the country's household wealth, and how, why and when people choose to access that wealth has ramifications that spread far beyond the mortgage and housing markets. The research feeds into current debates about the use of housing wealth to pay for higher quality long-term care (which remains unresolved despite the recent election), and about how to incentivise efficiency in the housing and mortgage market. It also informs discussions about intergenerational wealth inequalities and the Bank of Mum and Dad.

This is the third in a series of LSE London reports for the Family Building Society, following and building on *A taxing question: is Stamp Duty Land Tax suffocating the English housing market?* (2017) and *The Bank of Mum and Dad: How it really works* (2019).

Context

In the UK there is growing demand for mortgage products for older people both to maintain existing mortgages and to withdraw equity. To some extent this follows from the rapid inflation in house prices over the past decades, which mean many of the current generation of older households have large amounts of equity locked up in their homes. On the supply side, lenders are looking for ways to grow their markets now that so many people have paid off their mortgages and access to owner-occupation has become more problematic. However, there are concerns about some of the attributes of available products and there are some clear regulatory issues that need addressing.

Historically, mortgage lenders required loans to be backed not just by the security of the property but also by the main earner's salary. As well as having a secure income, borrowers had to repay the loan before the age at which they were expected to retire (generally 60 or 65). Thus when home owners died they left unencumbered property to their heirs—and in an inflationary world, the home might represent much if not all of their wealth.

Many of the assumptions underlying this stylised financial and lifestyle trajectory have long since been overturned. People have longer life expectancies, and enjoy good health for longer, so may be outright owners for many decades after paying off their initial mortgages. There has been a huge increase in portfolio careers (and indeed portfolio families), so income and expenditures may fluctuate well into old age. Household income profiles are beginning to favour older households with defined benefit pensions over younger people in often-precarious employment. Young people

increasingly require parental assistance to buy their own homes, so there is a need for ways other than inheritance to pass on housing wealth.

In addition, the rise of interest-only lending in previous decades produced a significant group of borrowers with interest-only mortgages, where the amount of the debt itself did not decline. The first cohorts of these borrowers have now reached retirement age. Many of the households who took out such mortgages did not have repayment plans in place – and those that did were often partial. They now want not to withdraw equity but to find a way to restructure their loans so as to remain in their homes.

There is increasing policy interest in how people can, and should, use their housing wealth. There is a large pool of such wealth to draw on—housing is UK households' largest single asset (ONS 2018). Of the population aged over 65, 74% are outright owners (English Housing Survey 2017/18), and the House of Lords report in 2013 found that £280 billion in housing wealth was 'available' to be released (House of Lords 2013). At least in the UK, the Treasury is increasingly suggesting that into the longer term people should expect to pay for their care and other costs from their own equity (although they may not be saying this explicitly).

Thus on the demand side

- Retirees may well have a more secure income than they had when in work
- People may need to release some of their equity to maintain their standard of living, support a more expensive lifestyle or invest in further assets
- They may want to use that equity to help others (notably via the Bank of Mum and Dad to support children buying a home)
- Increasing numbers of households have not paid off their mortgage on retirement and therefore need to remortgage
- The growth of interest-only mortgages means that new products are necessary to enable people to remortgage at later ages – and indeed to die in debt
- The cost of Stamp Duty Land Tax discourages downsizing – and in any case many people prefer to stay in their current homes.

While on the supply side

- Mortgage providers are facing a more difficult lending environment because of additional Europe-wide regulation after the Global Financial Crisis (GFC)
- Lenders are looking for additional outlets because increasing numbers of owner-occupiers are outright owners
- The regulatory need for banks to ring-fence retail deposits since 1 Jan 2019 has created a large pool of cash which now needs to be lent as mortgages. The rise of new lenders simply adds to the volume of mortgages that need to be sold in an historically low interest rate period.

Older households represent one of the few relatively untapped markets.

There are some long-established ways of releasing housing equity, and some innovations. Older households (there is no standard definition, but often 55+ or 60+) can choose between two main forms of mortgage:

- **Remortgaging against unencumbered equity** in their home – where the mortgagor continues to pay the interest and capital into retirement and may need to extend or replace the mortgage at intervals. Such mortgages are increasingly available for those in the eighties

and nineties if they have a clear source of funds to make the repayments. New Retirement Interest-Only mortgages (RIOs) have no specified term.

- **Equity release mortgages** where the borrower obtains a lump sum based on part of the dwelling value and existing mortgage commitments and does not pay interest on these funds. The loan is repaid with interest, either when the borrower moves into residential care or on their death. The products are regulated to limit the proportion of value that can be released and to ensure borrowers do not go into negative equity. Equity-release mortgages were first introduced in the UK in the 1970s but became the subject of one of the first mis-selling scandals because of their lack of transparency. Our survey shows that they are not regarded as good value by more knowledgeable borrowers. However, they are heavily advertised; appear to be popular with some groups looking for a lump sum; and are the most rapidly growing part of the market.

Other forms of mortgage are being developed, including products that allow older people to partner with their children/grandchildren to help provide deposits for the next generation's house purchases.

In general, we would expect to see more remortgaging by older people the more the market at younger ages is dependent on interest-only or similar mortgages, the greater the amounts of unencumbered equity tied up in housing, and/or the poorer the alternatives in terms of income and capital available to older households.

Government and regulators are still coming to terms with this new market segment, and the regulatory framework is in flux. Only in 2018 was the RIO product category created although has not yet captured a large market, with the number of new loans still in the hundreds rather than the thousands. We can expect further tweaks to the regulatory system as weaknesses become apparent, or if government introduces incentives to try to channel borrower behaviour.

The research

Our broad research questions were:

What types of older people (aged 60+) withdraw equity from their homes?

How do they decide between the possible ways of doing so?

How do they use the funds released?

We used a mixed-methods approach employing secondary source analysis, online surveys, focus group discussions and interviews. In July 2019, LSE London researchers carried out an online survey of Family Building Society customers. An email link to the survey was sent by Family Building Society to approximately 24,000 of their customers (both borrowers and savers) aged over 60. Some 996 responses were received. Not all respondents answered every question; about 956 responses were complete enough to analyse.

Respondents, almost all of whom were owner occupiers, were asked whether they had ever remortgaged their principal home (whether to withdraw equity or not) or taken out an equity release plan, or considered doing so. Those who had withdrawn equity were asked how they decided amongst the available options and what they had done with the funds released.

At the same time, we conducted an online survey of mortgage intermediaries, asking how the demand for equity withdrawal had evolved recently and about how well the existing options met their clients' requirements. This survey had 74 responses.

Finally, we held focus groups for older customers (including some who had withdrawn equity and others who had not) in London and Epsom in September 2019, and carried out a programme of interviews with mortgage intermediaries and stakeholders from government and industry. To enable focus-group participants and interviewees to speak freely we have not identified them by name in this report.

Profile of respondents

A majority of our cohort of 956 respondents were male; married; home owners; living in a detached house; retired; and had adult children (though not necessarily all these characteristics at once). Almost all were over 60. Most had incomes of over £30,000/year (higher for those still working). The estimated values of their homes clustered around £250,000 – £500,000. On the whole, then, we were looking at people with few financial concerns. Annex A gives a more detailed profile of our respondents.

Much of the policy discussion about financial resilience in older age focuses on the 1.9 million older people living in poverty (eg AgeUK 2018) and clearly many older people do struggle financially, especially those who do not own their own homes. Few such households were captured in our sample, which was not representative of the UK population at large. Family Building Society customers are more likely to own their own homes and to live in southern England. On the whole this is an affluent group in terms of wealth, if not income (most are pensioners).

The equity withdrawal products

There are various financial products to release housing equity in later life. The main distinction is between mortgages (including Retirement Interest-Only mortgages (RIOs) and equity release plans. There are also specialist products to deal with the needs of those about to enter care homes (eg immediate needs annuities) but they are not considered in this report.

Later life mortgages

Up to 2007, some mortgage lenders were willing to offer standard mortgage loans to householders who would be up to 85 years old at the end of the term (Overton and Fox O'Mahony, 2015). This became much less common after the GFC, when the Mortgage Market Review identified mortgage terms lasting past retirement as 'high risk'. The limited remaining offer dried up after the UK implementation of the Mortgage Credit Directive in 2016, as such mortgages were treated as equity release products (FCA 2018). In 2017, the FCA changed the regulations in order to facilitate the development of this market.

Many lenders have since relaxed their age limits and are willing to offer standard mortgages with monthly repayments that cover interest and principal to older borrowers including those who are already in retirement.

- ***Retirement Interest-Only mortgage (RIO)***

The 2017 changes created a specific product category of retirement interest-only mortgages, defining them as

Interest-only mortgages for older customers where, assuming there is no default, the loan is only repaid on a specified life event (usually the customer's death or move into residential care). [FCA 2017 p. 31]

RIO borrowers make monthly payments covering the interest (not usually the principal), so the capital amount borrowed remains constant. This contrasts with equity release, where borrowers usually make no payments and the interest is rolled up into the debt, reducing the value of the remaining equity in the home. RIO products are currently offered by only a few of lenders, most of which are small mutuals, apart from Nationwide. Lenders such as challenger bank Aldermore also offer interest-only mortgages into retirement, but as they have specified terms they are not technically RIOs.

The regulator requires stringent affordability assessments for these products. In particular lenders must ensure that either member of a couple could afford to continue payments using income from employment, self-employment or their pension, if their partner were to die. These underwriting requirements are intended to reduce risk, and they do therefore exclude some potential borrowers. They also probably contribute to the limited market offer, as this type of manual underwriting is costly and many of the larger lenders are not set up to do it.

Individual lenders set their own policies on borrower age (usually a minimum of 55), loan size and other product features for RIOs. LTVs these are generally in the range of 40-60% but may well be smaller. There are also minimum loan size requirements. Some offer offset facilities and/or allow borrowers to overpay.

The FCA's expectation in 2018 was that around 21,000 RIOs would be sold annually from 2021/22; however only 112 RIOs were sold in the first year of their availability (Kirkman 2019).

Equity release

Equity release plans allow older people (over 55, 60 or 65, depending on the product and provider) to withdraw equity from their home while continuing to live in it. Equity release got a bad name in the 1980s and 1990s, as the effects of high interest rates and compound interest meant that some borrowers ended up owing more than their house was worth. Some had their homes repossessed.

The Equity Release Council subsequently adopted safeguards to reduce the risk of negative consumer outcomes. These include a 'No negative equity' guarantee by which the lender guarantees that the borrower or their estate will never need to pay back more than the value of their house when the loan is repaid; a cap on variable interest rates (for lifetime mortgages); and the guarantee that borrowers can remain in their homes until they die or move into long-term care, as long as they abide by the terms of their contracts. Providers must also allow borrowers to move to another property as long as it provides acceptable security for the loan. An increasing number of plans can be secured against specialist retirement properties, which was difficult in the past.

Providers are insurance companies rather than banks. Aviva, Liverpool Victoria and Legal & General are major players. There are two main equity release options, both of which are now regulated by the Financial Conduct Authority--lifetime mortgages since 2004 and home reversions since 2007.

The average LTV on equity release is 32%. The average drawdown borrower is aged 72 and takes £60,000, while those who take lump sums tend to be slightly younger (average age 69) and release more money (£100,000) (Mayhew 2018). According to the Equity Release Council, in Q3 of 2019 there were 11,419 new equity release loans taken out (Equity Release Council 2019).

- ***Lifetime mortgage***

This is by far the most common equity release product, accounting for more than 99% of the market. The borrower takes out a mortgage secured on their principal residence. Funds can be released in a lump sum or in small amounts. Usually the borrower makes no repayments and the interest rolls up in the debt, although some providers permit periodic repayments of interest or principal. The entire debt is paid off when the borrower dies or moves into residential care. Maximum loan-to-value ratios depend on the value of the property and the borrower's age, but most providers offer no more than 60%.

Advice on these products is only available from qualified equity release intermediaries and commission levels are much higher than standard remortgages. Interest rates on lifetime mortgages tend to be higher than for normal mortgages, in part because of the need to fund the ERC guarantees: both the no-negative-equity guarantee and the cap on interest rates impose costs. Some experts have expressed major concerns about the pricing of the no-negative equity guarantees, arguing that they are significantly undervalued (Dowd 2018, 2019).

- ***Home reversion***

In this, now much less common, version of equity release, the customer sells all or part of the equity in their home to a provider in return for a lump sum or regular payments. Ownership of the property passes to the provider. The customer has the legal right to live in the property until they die or move into long-term care, but must maintain and insure it. The proportion retained will remain the same regardless of any change in property values, although customers can choose to take further cash releases if equity is available. At the end of the plan the property is sold, with proceeds shared between the home reversion provider and the customer (or their heirs) according to the contractual proportions of equity.

Taking out any kind of equity release plan can affect the customer's tax position and eligibility for means-tested benefits, especially if the product is used to draw income rather than a lump sum.

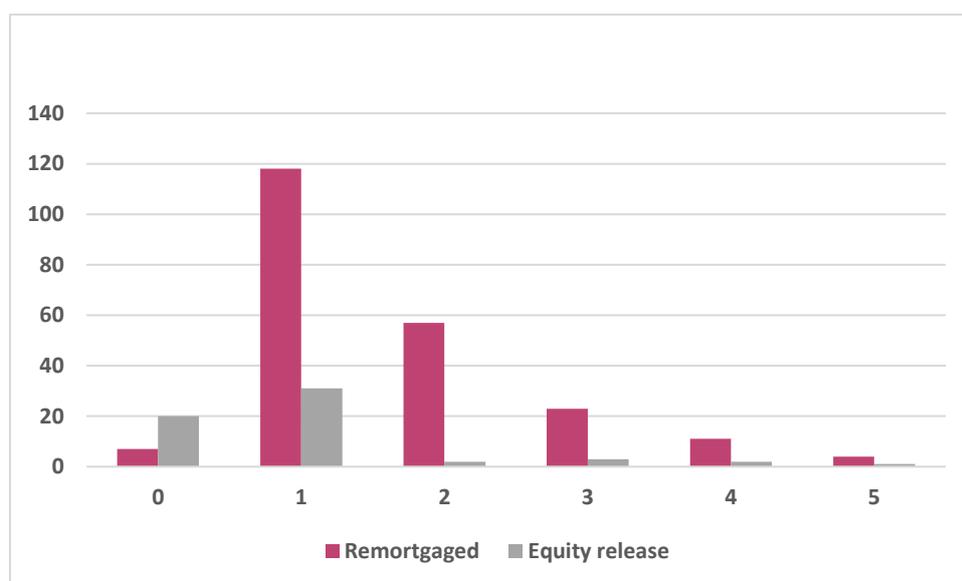
Findings from the research

Frequency of remortgaging and equity release

Of our survey respondents, 227 said they had remortgaged and 24 had taken out an equity release loan against the value of their properties at some point in their housing career (not necessarily in older age). While equity release tends to be a one-time transaction, many respondents had remortgaged more than once (Figure 1).

Figure 1: Number of times respondents had remortgaged or taken out equity release plans

(n=279)

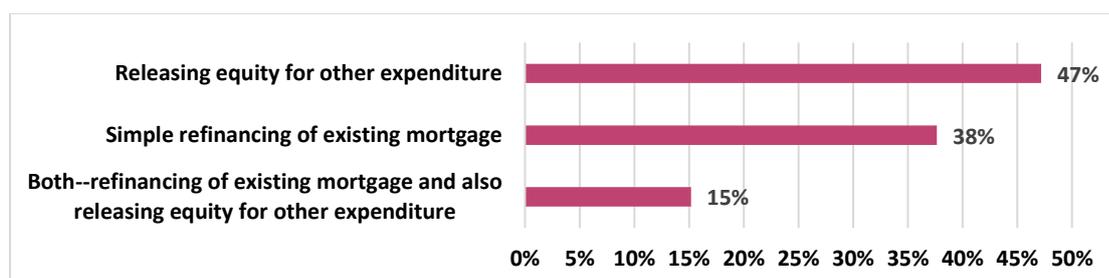


Most of the survey respondents who had remortgaged did so in whole or in part in order to withdraw equity, but just over a third were simply refinancing an existing mortgage (Figure 2). Regular remortgaging has long been a feature of the UK housing-finance system, as borrowers take out loans with short-term fixes or discounts then remortgage after a few years when their deals come to an end. Wider housing- and mortgage-market developments mean home buyers are increasingly facing mortgage repayment periods that extend into their 60s or even 70s.

Much later life borrowing is therefore part of the normal cycle of remortgaging to a better deal that happens at all ages in the UK market. The distinctions between these normal remortgages and the newer phenomenon of later life remortgaging is that the later life products are more likely to be taken out by outright owners some time after the original purchase mortgage was repaid, and that the later life remortgage extends into older age. However, there is no hard and fast distinction: some lenders will lend to older borrowers using the same products that are available to all borrowers.

Figure 2: General purpose of remortgaging

(n=178)



Our survey of FBS customers was a snapshot and did not capture changes over time, but the evidence is that demand for later life borrowing against housing wealth is increasing. More than half the mortgage intermediaries surveyed said that in the last 12 months they had seen increased demand from clients for later life withdrawal of equity, particularly for remortgaging.

Attitudes to using housing wealth

Most of those who had remortgaged or withdrawn equity from their homes, or considered doing so, saw themselves as making a financially rational choice about the best way to use their assets effectively (Table 1). Intermediaries concurred, saying their more sophisticated clients used borrowing as a deliberate financial strategy. What was seen as a financial product of last resort is now much more mainstream. Most people using the product are reasonably informed – but there was concern that this could change as the product moves more to those with less financial cushion.

**Table 1: Which of these statements best describes your attitude to taking out a loan in later life?
(respondents = those who had remortgaged or withdrawn equity or considered doing so)**

	%
Actively using the value of my home is part of my long-term financial strategy	69%
I/we have some concerns about assuming debt but feel it is the best/easiest option	17%
I/we were reluctant to assume debt but felt there was no other choice	14%

Older people’s attitudes to releasing housing wealth: from stakeholder interviews

The aim of being mortgage-free on retirement is now losing its hold. At one time it was seen almost as a sin to retire with debt but much less so now.
--intermediary

It should be recalled, though, that ‘active’ users of housing wealth (that is, respondents who had remortgaged or taken equity release loan, or considered doing so) comprised a minority of our survey respondents. Many said they simply did not need to access their housing equity, while the main concerns for those who decided **against** doing so were cost and the prospect of diluting children's inheritance. Those who had not themselves been active in this market generally equated withdrawing equity with equity release, of which there was deep suspicion.

Attitudes to releasing housing wealth: responses from the customer survey

A desperate measure which I fortunately do not need to consider

do not know anything about it apart from suspicion that it is a dangerous thing to do

the best way for us to release equity was to downsize from the south east to the midlands where housing was much cheaper

Other researchers have similarly found older people reluctant to consider spending their housing equity. One study, which used in-depth interviews based on hypothetical scenarios, found that

‘Respondents believed that savings and equity in the home provided a financial buffer in case of any future problems or difficulties. However, when questioned further, most people found it difficult to imagine any circumstances in which they would choose to withdraw equity’ (Jones et al 2010, p. 1006)

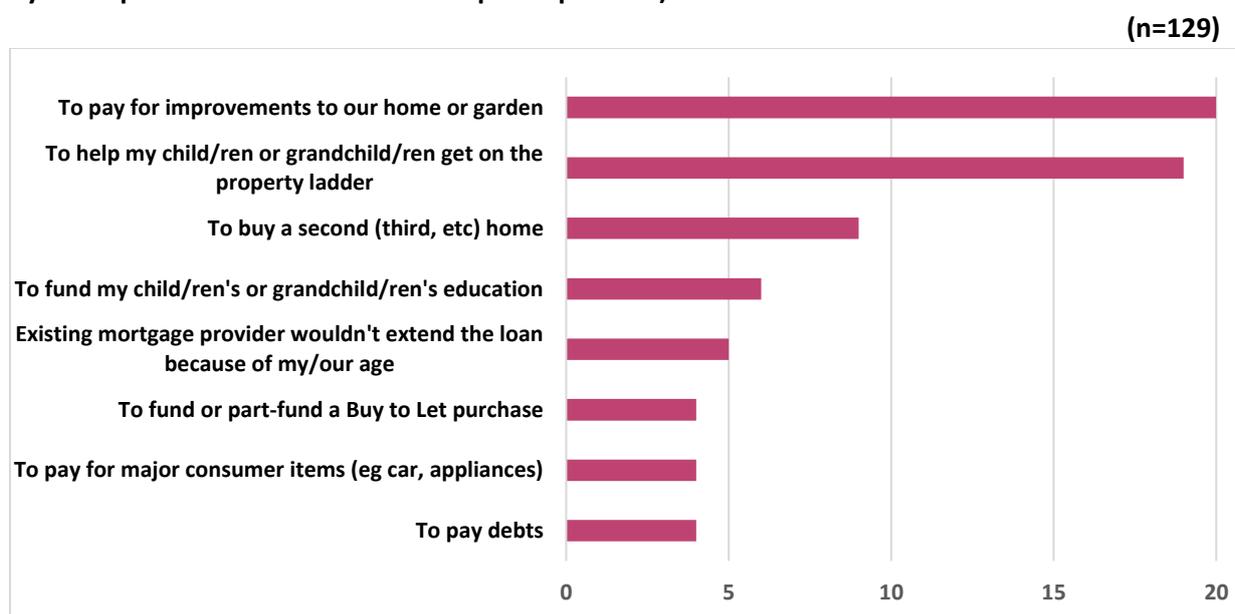
This and other studies found that younger age cohorts were more willing to consider using housing equity than older cohorts (Smith 2004). However, it was not clear whether there was a permanent difference in attitude between those who are now younger and those who are now older: it may be that attitudes change as people age.

How the funds are used

We asked respondents who had released funds through remortgaging or equity release, what they intended to do with the money. Much of the current policy discussion around older people’s use of housing equity centres around the potential of drawing on this equity to pay for care. A recent analysis by Overton (2019) mentions ‘inadequate pension income, paying for the costs of care, and an increasing debt burden’ as fuelling equity release.

However, in our survey these essentially negative reasons were little mentioned. Our respondents borrowed against housing equity for two main reasons: to improve their existing homes or gardens or to buy second homes, and to help children or grandchildren buy a home or pay for education (Figure 3).

Figure 3: Intended uses of funds released by remortgaging or equity release (Reasons mentioned by >4 respondents. More than one response possible)



The results of our survey suggest that withdrawing equity to pay for care is not common practice, at least in this cohort. Only a single respondent said they had used the funds for this purpose. This echoes the findings of other research: a survey of 1756 over-55s found that only 1% of borrowing (including credit-card borrowing) was used to pay for care (More2Life 2019). Recent qualitative research into older people’s attitudes towards future care needs found a general reluctance to plan for the eventuality (AgeUK 2018). Interviewees for this study said they could not know if they

would actually need care, and in any case they expected the cost to be so enormous that there was little they could do to plan for it. Older people are not alone in their reluctance to consider potential future needs; the Wealth and Assets Survey suggests that individuals of all ages are poor at 'planning ahead' (Overton & Fox O'Mahony 2015, p. 29).

Similarly, intermediaries reported that their clients' main reasons for withdrawing equity were to help their children financially, carry out home improvements and pay off debt. None of the intermediary respondents said their clients were withdrawing equity to pay for care; the most common reasons reported were to pay for home improvements (possibly including mobility-related adaptations) and to help their children.

How funds are used: from interviews with mortgage intermediaries

The last (such loan) I did, the people bought a house in Spain and are able to enjoy it, while keeping their home here. That may be more difficult in the north of England but my clients are mostly in the south.

No one wants to admit that they will/may go into care. In fact I can't think of one instance (of remortgaging to pay for care).

Product choice: remortgaging vs equity release vs downsizing

The mortgage intermediaries said those of their clients who wanted to release funds generally saw their options as remortgaging, equity release or downsizing, with a few considering sale of other assets. Downsizing was seen as an unattractive option, both because people wanted to stay in their current homes and because changes in SDLT have made such transactions increasingly expensive, especially for those wanting to buy a smaller home in a higher-cost part of the country (Scanlon et al 2017; Mayhew 2019).

According to intermediaries, the biggest drivers of remortgaging were future need to help family financially, and inheritance tax planning. More than four-fifths of the intermediaries surveyed said their clients thought remortgaging was a better option than equity release, for three main reasons: they were concerned that equity release would reduce the value of their estates, they thought it would be more expensive in the long term, and they considered it 'a last resort'.

Previous research into the views of equity release customers found that they were anxious about accumulating debt and reducing the equity available for their heirs; some reported that they were locked into their current property (Overton 2019; AgeUK 2018). Researchers also reported that there was a stigma related to equity release (Fox O'Mahony & Overton, 2014). Our respondents expressed the same concerns. Some said there was a place for equity release but many regarded it with suspicion, harking back to the scandals of the 1980s when some borrowers ended up owing more than their homes were worth. Some were worried that taking out an equity release plan would tie them into their existing home.

Remortgaging vs equity release: responses from the customer survey

Remortgaging, yes.....equity release, certainly not

There can be times when useful to remortgage, such as our example to enable a move to a smaller property if unable due to market conditions to sell own property. Equity release good for asset rich, cash poor families or those without children.

Equity release proposals MUST ALWAYS be prepared to pass tests of 1. Positive net present value 2. Inter-generational fairness. Based on these tests, equity release can be a good idea for a FEW people. But attempts to market equity release to the majority, based on a failure to deal with these key issues, are inappropriate and borderline predatory. The Financial Conduct Authority should be taking a MUCH more serious interest in regulating such products.

Our stakeholder interviewees concurred that there was a lingering distrust of equity release, and limited but growing awareness of other borrowing possibilities. It may be a slow burn, like pensions freedoms. Heavy advertising by equity release providers almost certainly affects perceptions of what is available, especially for less financially sophisticated consumers.

Remortgaging vs equity release: from interviews with intermediaries

In the past, equity release was the only option (for releasing housing wealth) but now it isn't. A lot of people don't want to have their equity reduced, if they can manage to pay the interest.
--Intermediary

The mortgage product offer to older customers – intermediary views

Each individual lender has its own policies governing loans to older customers. These cover not just the obvious factor of age, but also whether they will consider a range of income streams (as post-retirement households often have not only pensions but also income-producing investments) and whether they will consider unusual or complex cases. Our interviewees said that in general age limits were increasing, though there were no rules or accepted industry best practice about the maximum age of borrower. There is huge variation amongst lenders; according to the Building Societies Association, 36 building societies will lend up to age 80 or over, and of those, half have no upper age limit at all; on the other hand, some large lenders limit loan terms to age 65. Buy-to-let loans are unaffected as they are based on rental income.

Intermediaries reported that there were at least some lenders who had flexible policies in each of these areas (Table 2). Traditionally lenders expected borrowers to have repaid their mortgages by the time they retired, but intermediaries reported that an increasing number of lenders will now lend into older age (80+). They saw most flexibility on lending into older age and accepting multiple income streams, with fewer lenders willing to consider unusual or complex cases. No lenders specialise exclusively in older clients, but generally building societies were seen to be more flexible than banks--though one intermediary commented that it 'Depends on individual cases. One lender may do Case A but not B and another will do B but not A.' Most intermediaries agreed that only a minority of older customers remortgaged with the same lender. For those who did stay with their existing lender, ease was the major reason, while those who changed were leaving lenders whose maximum-age policies excluded them or chasing a better interest rate.

Policies on lending to older people: from stakeholder interviews

NatWest for example won't lend past (the age of) 70; MetroBank will go to 80. Generally, it's 70, 75. Fortunately the small building societies are taking up the slack.
 --intermediary

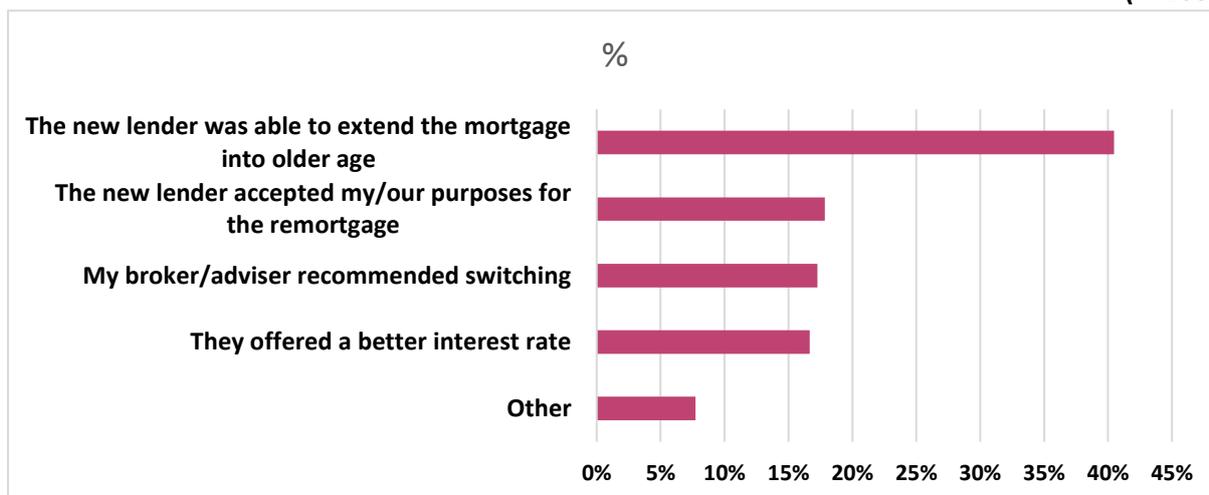
Some lenders are looking at offering a lifetime continuum of lending: a borrower takes out a conventional mortgage, pays it off, then at some point turns it around into releasing equity. It mirrors the pattern of equity accumulation/decumulation over the lifecycle.
 --analyst

Table 2: Lenders' flexibility in dealing with older remortgagors (from mortgage intermediaries survey)

	Think most lenders do this	Think some lenders do this	Think few lenders do this	% most/some
Will lend into older age (80+)	1	22	15	61%
Will consider a range of income streams	4	18	15	59%
Have no set maximum loan amount	5	16	16	57%
Will consider unusual and complex cases	1	13	23	38%
Don't credit score	3	9	24	33%

The degree of variation across lenders gives customers an opportunity (or forces them) to shop around. In our survey, of the older clients who had remortgaged, 63% had moved to a different lender when they did so. The main reason given was that the new lender was able to extend the mortgage into older age (Figure 4).

Figure 4: Reasons for moving to a different lender on remortgaging (multiple responses permitted)
 (n=168)



Overall our interviewees saw the emergence of a wider range of equity withdrawal products as a positive development, as long as the products were sold properly to customers who were themselves aware of the pitfalls. Even so, intermediaries felt the product offer for older people could

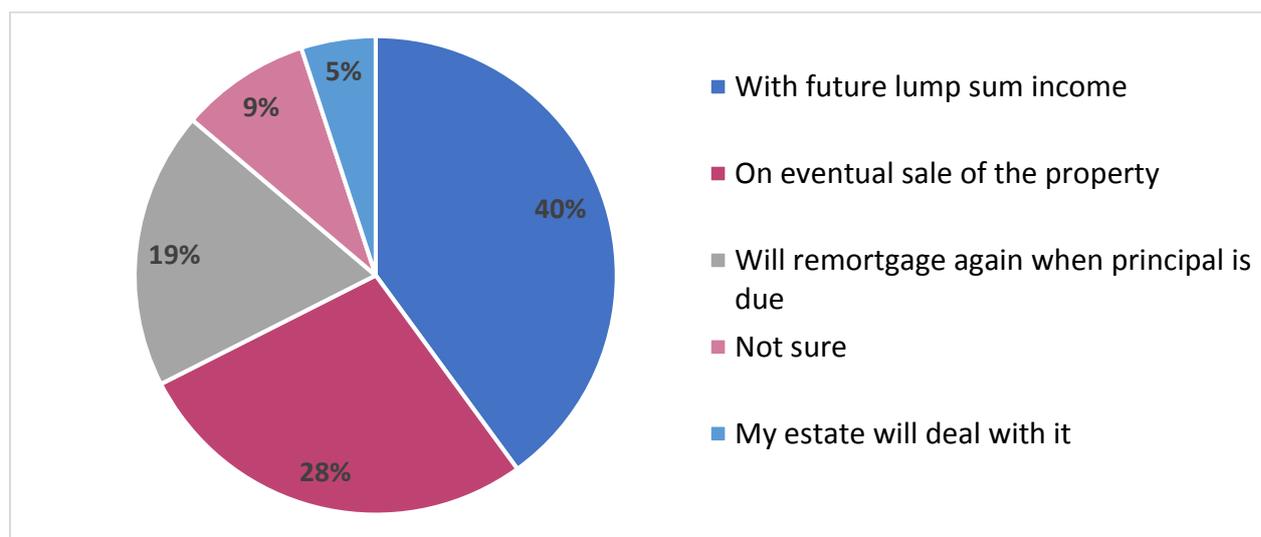
still be improved. Most mentioned was the effect of age restrictions—which are up to individual lenders. Suggestions for improvement centred on extending mortgage terms (even indefinitely); allowing repayment of principal on sale of property; and allowing multiple income streams, including unearned income. There was an expectation that as the market grew and more players entered the market, terms and conditions, and the capacity to switch or to repay equity, would improve.

Characteristics of remortgages

The terms of remortgages tended to be multiples of five years. A ten-year term was most commonly reported, followed by 15 and 20 years. About half of the respondents who had remortgaged were making repayments of interest-only, with 43% paying principal and interest; the remainder were unsure how their payments were structured. Intermediaries concurred that their clients were mainly looking for interest-only mortgages, although not necessarily for RIOs specifically.

We asked respondents with interest-only mortgages how they intended to repay the principal when it became due. Some 40% said they would use future lump-sum income (e.g. from a pension or an inheritance), while 28% planned to sell the property at some point (Figure 5). According to intermediaries, eventual sale of the mortgaged property was by far the favoured plan for repaying principal.

Figure 5: Borrowers with interest-only mortgages: Plans for repaying principal*

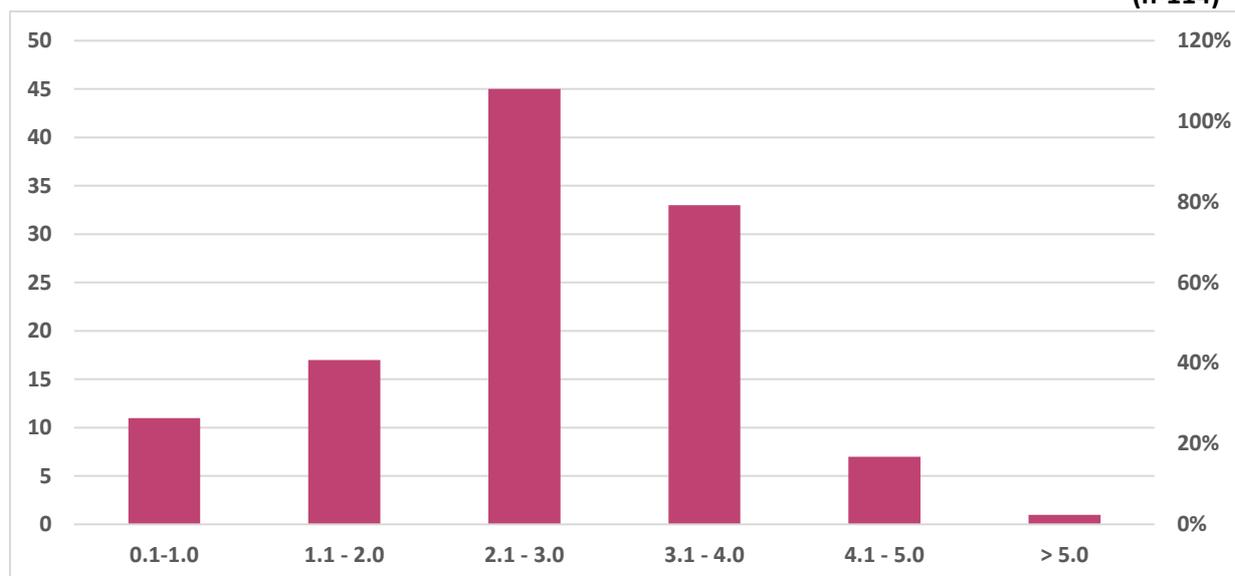


**figures do not add to 100% because of rounding*

Our respondents report paying interest rates clustering around 2-4% per annum on remortgages (Figure 6). This is well below current interest rates on alternative types of borrowing such as credit cards or unsecured loans, and illustrates the financial attraction of this type of borrowing. It is less straightforward to compare the interest rates on equity release products, which are not very transparent—though some providers are currently advertising fixed rates of 4-6% per annum.

Figure 6: Annual interest rates on remortgages

(n-114)



Respondents' future housing plans

Most respondents said they wanted to stay in the same house in the medium term (5 years), and about half in the longer term (10 years). Downsizing was seen as a much less attractive option, appealing to only 10% in the medium term and 20% in the longer term (Table 3). Few want to upsize.

Table 3: Where respondents hope to be living in the future

	In 5 years	In 10 years*
In the home where I live now	70%	48%
Not sure	16%	29%
In a smaller property	10%	20%
In a larger property	4%	4%

**figures do not add to 100% due to rounding*

Risks, regulation and policy

Later life borrowing presents specific risks for both consumers and lenders. Some though not all of these can be addressed through regulation. The goal must be to strike a balance between risk mitigation and enabling the beneficial aspects of the market to operate. The FCA and lenders have been tweaking the system over the last few years, trying to find the balance that works in current market conditions. Regulations are never fixed permanently: market conditions inevitably change, and new products will emerge, so regulations may have to respond. In December 2019 the FCA announced it had begun an investigation into equity release and later life lending to ensure that consumers were receiving the best advice and not being harmed.

Consumers' perception of risks centres on equity release rather than remortgaging. They are often concerned with the risk of negative equity, or worry that they could be trapped in their existing home, unable to move. Both these risks are now largely abolished, though not all understand this. Consumers also worry that they would eventually have nothing to leave to their children. Making the right choice is all the more challenging because, as one expert says, 'Information about equity release can appear complex, overwhelming and difficult to process' Overton (2019).

Perhaps less recognised by consumers is the risk of liquidating assets too early. Borrowing in 'young old age' (perhaps for discretionary expenditure) can leave some households with too little equity to fall back on in 'old old age' (perhaps for necessities). The money can only be spent once. Many of our respondents had seen the value of their housing equity multiply several times over during the period they had owned their homes, which could allow them repeatedly to release funds from the growing equity. However, we cannot assume that this growth will continue—indeed, it is more prudent to assume that it will not.

Risks to consumers of later life borrowing: from stakeholder interviews

The money can only be used once, so people could access and disperse their assets in younger old age then turn to the state to support them when they get older. Customers could find when they are up against it, their life choices are reduced because they've already spent the money.
--Lender

In the case of really old people we do get concerned about the maintenance of properties. It affects us as a lender but also them if they are living in homes that are cold and damp.
--Lender

The risk of depleting the asset value too early was also identified before the 2015 introduction of pension freedoms, which eliminated the requirement for individuals with defined-contribution pensions to buy annuities. After this major change, those with personal pensions were allowed to take as much out of their pension pots as they liked. Some prognosticators said people would empty their pension accounts to buy sports cars, and doubtless some did—but policymakers accepted that risk in the interest of giving people much greater control over the assets they had built up over a lifetime.

The advent of pensions freedom led to greater interaction between mortgage and pension decisions, but the intermediaries we interviewed said the existing advice framework doesn't provide a joined-up analysis. Truly comprehensive financial advice would take in not only pensions and other assets but also inheritance plans, tax, etc. Other experts go further, and say that even comprehensive

financial planning is not enough, as relationships and health should also be taken into account (AgeUK 2018).

Such advice is costly and in practice few are prepared to pay for it, so later life borrowing transactions may not be structured the best way, even if the lender requires the borrower to take (limited) advice. One intermediary said they were concerned about consumers ‘Lack of understanding and confusion of long-term effect of different choices,’ and that intermediaries risked ‘future claims from CMCs [claims management companies] for wrong advice.’

Changes in regulation: from stakeholder interviews

In the last three or four years the regulator has almost done a U-turn about later life lending. They now see it as an underserved market....The regulators realised they had disadvantaged a large segment of the population.
--Lender

The MMR said lenders must consider all foreseeable changes in income, and retirement is foreseeable so it led to a fall in lending into older age. Then the FCA said hang on, we didn't mean for that to happen!
--Analyst

Findings from interviews with policy makers, regulators and other stakeholders

- **About products**

Those involved in developing policy, monitoring and regulating financial products drew a clear distinction between customers who still had mortgage debt when their mainstream mortgage came to an end at or near the point of retirement, and outright owners who wanted to release some of their equity in order to use it for other purposes. Renewing an existing mortgage or taking out a new mortgage on similar terms was a well-understood process and a standard, low-risk product--as long as the mortgagors had secure income (even if one partner died) which enabled them to make the repayments. RIOs were seen as a useful if limited innovation. They are currently relatively expensive and in the case of a joint RIO mortgage constrained by affordability in the event of one party's death.

On the other hand, products that release equity are potentially more complex and involve a wider range of risks which depend on how the release is financed. Not all such products are taken out by post-retirement households.

The majority of equity release products are lifetime mortgages which continue until the last borrower dies or goes into care. They often involve no repayment, with interest simply being added to the loan—although some schemes permit repayments of both capital and interest, or of interest alone. The lower the repayments, the higher the risk of loss of equity. With a traditional equity release product, borrowers were getting more indebted over time and might be unaware of how fast this would happen, as the emphasis tended to be placed on the ‘no negative equity’ clause built into the product specification rather than on the cost of the loan. Interviewees said the age of the borrower was important: while equity release could be a valuable product for someone in their 70s who planned to run down capital, it is less clear that it was a good option for someone in their 50s.

There were also risks to lenders, especially if these products are mispriced. The full lifetime equity release product, where no repayments are made, is mainly funded by insurance companies. Some experts have argued that the cost of the no-negative-equity guarantee has been systematically underestimated (Dowd 2018). There is lack of clarity about the expected (and then actual) longevity among the groups taking out the product, and about the extent of capital gains projected. At the moment the market is small so risks can be readily diversified. As it grows there will be better data, which will improve risk calculations.

Interviewees expressed concern about the lack of flexibility and transparency of these products. Once a borrower had taken out an equity release plan they were rarely able to transfer to another provider, although there are some new initiatives to make switching easier. Costs are not always transparent and it is difficult to compare products. Finally, customers might forget important details about the terms and conditions of the transaction, given the long time horizon.

- ***About advice***

Interviewees' major concern was to ensure customers receive appropriate, high quality advice. 'Advice is the key' was the message from all. Everyone wants to ensure customers get joined-up advice, but at the moment advisers are trained either in the range of mainstream mortgage products or they have additional (legally required) training in equity release products. Equity release providers also pay significantly higher commissions to intermediaries than do mortgage lenders. Arguably these features of the market mean that the consumer's choice of adviser determines which product they will end up with, simply because of a lack of holistic advice. 'Who you talk to shapes what you do', said one interviewee. This is something that both the industry and the regulator are trying to address but some issues are inherent in the nature of the products.

Customers also cannot get borrowing and investment advice from the same source, yet many are doing both as part of their overall portfolio. There is an issue of depth versus breadth; given the range and complexity of possibilities, not every adviser will be able to cover the full range of options.

The long-term nature of these products means they may be in place through entire housing-market cycles when capital gains and costs may vary. Especially in very old age, customers may not remember all the advice they were given, and heirs in particular may feel that they have not had a good deal. There are therefore a whole range of reputational risks that advisers must manage.

- ***About policy***

We asked our policy interviewees about financial stability and about ensuring informed choice. On the whole they expressed little concern around whether equity-withdrawal products might raise issues of financial stability. While growing, it remains a small market which aims to fill an obvious need.

Governments of all types have favoured owner-occupation. One of the benefits of home ownership is that it provides security in older age. That includes the potential for using housing equity to pay for a range of needs - including high-quality care, home improvements, helping children and grandchildren with house purchase and education and supporting entrepreneurial objectives – as well as supporting an affordable lifestyle.

While many older households clearly make an affirmative choice to help their children or grandchildren buy their own homes, this should not detract from the need to support those without such assistance into home ownership (eg by deposit protection and other forms of guarantees).

Equally the family overall should not be exposed to too much risk as a result of taking out these products.

On the supply side, interviewees generally accepted the need for appropriate regulation to support efficient innovation, ensure transparency and protect the vulnerable of all ages. They pointed out that too-tight regulation could limit lending unnecessarily, while with loose regulation the risk of reputational damage was very real. They saw product governance as key to limiting risks and some expressed concern that there could be pressure to relax criteria to make later life borrowing products more affordable and grow the market. Currently these products have a limited customer base; a mass market would raise very different issues. There are inherent but healthy tensions between the FCA and the PRA, as these regulators have different objectives. These existed even when they were part of the same organisation.

Some commentators have argued that the development of these products contributes to the recognised phenomenon of under-utilisation of housing space in later life. On the whole, however, the impact of these products on downsizing is thought to be relatively small. Older people downsize for many different reasons but financial issues rarely dominate. Other initiatives to increase the effective use of housing space are likely to be more important into the future.

Overall the message is that growth and innovation in this space, as well as increased competition, are to be welcomed. But it is particularly important to protect more vulnerable and pressured households and to ensure that there is high-quality advice available to all. Finally, these products should not be seen as means to solve wider problems of resource allocation in society.

Conclusions

Increasing numbers of older households are treating their housing equity as a financial asset, and new financial products allow them to actively manage this asset into very old age. The housing equity of older homeowners accounts for a significant chunk of the country's household wealth. How, why and when people choose to access that wealth has ramifications that spread far beyond the mortgage and housing markets.

Withdrawing equity using a financial product can help meet the needs of many older people. It represents a natural continuation of the housing-finance journey of older home owners and presents little risk for the well off. Equity withdrawal also represents a new product opportunity for mortgage lenders, who need to expand their offer as fewer people enter owner-occupation. Analysts and policy makers believe such products are not used enough by those who could benefit from them (House of Lords 2013).

Our survey did not capture downsizing, which is probably the most common way of releasing housing equity. For older people with health needs, downsizing or moving to an accessible property may be a more logical choice than remaining in a long-time (but now unsuitable) home.

Of our research sample of affluent older homeowners in southern England, only a minority had considered withdrawing equity from their homes. This was mostly because they did not need to; many respondents have secure pension income that covers their outgoings, and for larger expenditures could draw on their savings and investments, since households with property wealth also tend to have financial wealth. There is also a different and more worrying part of the market: the many people who reach retirement age (which is now anyway a rather moveable feast) and find they have simply not got the money to pay off existing debt. It is now somewhat easier for them to remortgaging into old age, as long as secure income is in place.

While the use of specialist older-age mortgage products is increasing, there are still significant barriers of understanding and trust. The reputation of equity release precedes it, and many potential customers are suspicious of it as a product. There was little awareness of other equity-withdrawal possibilities, including RIOs or simply maintaining a traditional mortgage, amongst those in our sample who had not actively been in the market. Equity release plans are heavily advertised in newspapers and on daytime television but RIOs (which have only existed since 2018 as a recognised product) are not, and this almost certainly affects consumers' perception of what is available. The longer term costs associated with these products and the cost of making changes are often not transparent. The structure of the market means a borrower may go to their bank or a tied adviser without realising that the advice they receive will be limited to that firm's products. How can borrowers make an informed decision if they only have a narrow view of what is available?

Later life remortgages offer an efficient way for households to use housing equity to smooth their spending curve over the life course. They allow borrowers to stay in their existing homes and the interest payments are compatible with pensioners' income streams (more secure, ironically, than those of their employed children). At current interest rates, this is a very cheap way to borrow, and especially in southern England can be far more attractive than downsizing, with its high transactions costs.

The demanding underwriting requirements for RIOs, the small number of institutions so far offering them, the relatively limited loan-to-value ratios together with minimum loan sizes and low awareness in the target market have limited uptake so far. This could change as awareness of the product grows and mainstream lenders increase competition by entering the market.

Homeowners often decide to use their housing equity to address their immediate requirements. Our affluent sample of borrowers was using the money pay for things that would improve their lives or those of their children now. Many used this borrowing to fund investment in their homes and to buy ‘treats’ like second homes and cruises. Funds were also often used to help children financially, especially by assisting with the deposit for buying their own homes. Thus later life borrowing forms part of the funding mechanism of the Bank of Mum and Dad, creating an intergenerational daisy chain of borrowing.

We did not find that borrowers were withdrawing equity to put aside for a rainy day later (especially since that day might never come), nor were they borrowing to fund care for themselves or their relatives. This may be in part because most of our respondents were ‘younger’ old people. This pattern of behaviour—borrowing to fund discretionary spending rather than necessities or the cost of care— could fuel concern among regulators that homeowners are using these products ‘too early’. Looking to the future there may be a shift towards using equity to fund the quality of care and other services that people choose.

A decision to withdraw housing equity should ideally be looked at in the context of a household’s overall financial and legal situation, as it could affect their tax position, inheritance plans, etc. Sales of equity release products must be accompanied by advice from qualified advisers. Consumers however have considerable difficulties in obtaining advice about the full range of borrowing options because of different training requirements for advising on different products – a topic being examined by both the industry and the regulators. It is even more difficult to find professionals who can give genuinely holistic advice about how these products interact with investments, pensions, tax and inheritance. This is worrying, since all our interviewees stressed the need for high quality advice especially given the long-term nature of many of the contracts.

Government and the regulators agreed that the way people use their money into older age should be a matter of choice – but of informed choice. They saw it as a policy objective to broaden the market and increase competition but were also concerned to ensure that risks were fully understood by providers and customers alike.

These products enable people to use their equity more flexibly. At the moment they are mainly used by financially sophisticated households who can, with advice, make low-risk high-benefit decisions. There are considerable opportunities for growth into the medium term – but there are also concerns that this is the lucky generation. Those who follow may well have higher debts (of all kinds) at retirement and less secure future income.

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Annex A: Profile of respondents

Some 68% of respondents were male and 32% female. About 40% were in their 60s and the same proportion in their 70s (Figure A1). Most were living in couples and 72% were married (Figures A2, A3). Spouses (mostly women) were generally a little younger than main respondents (mostly men).

Figure A1: Age of respondents

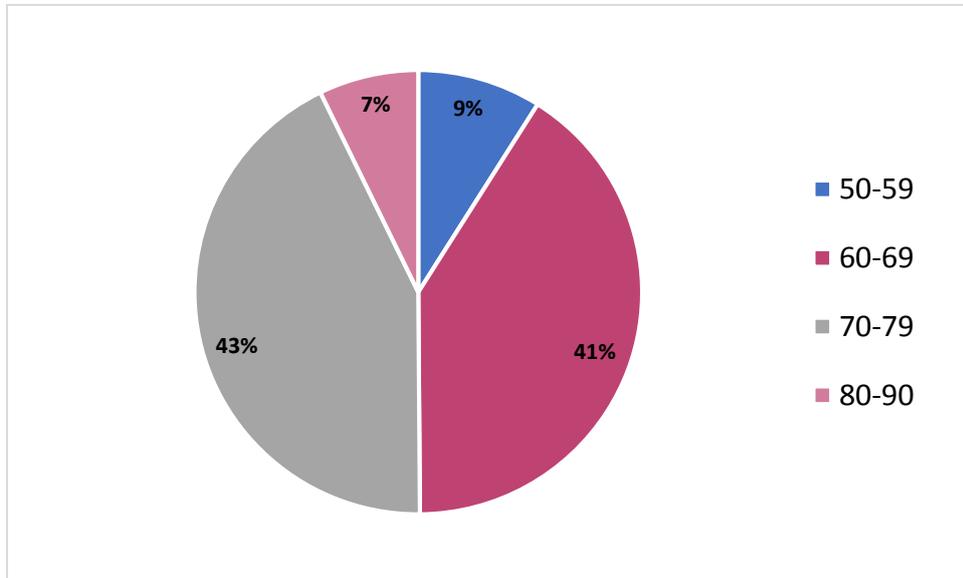


Figure A2: Household size (number of persons)

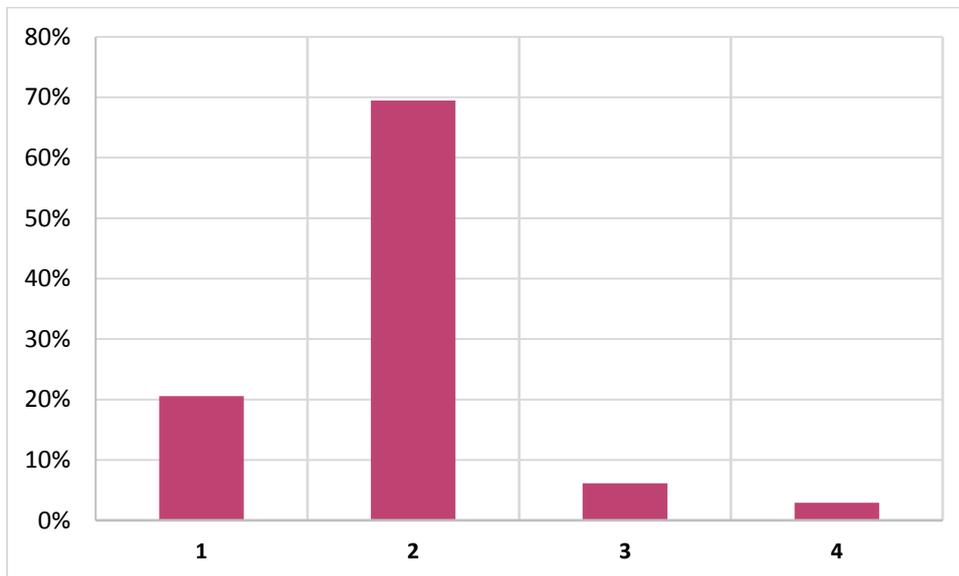
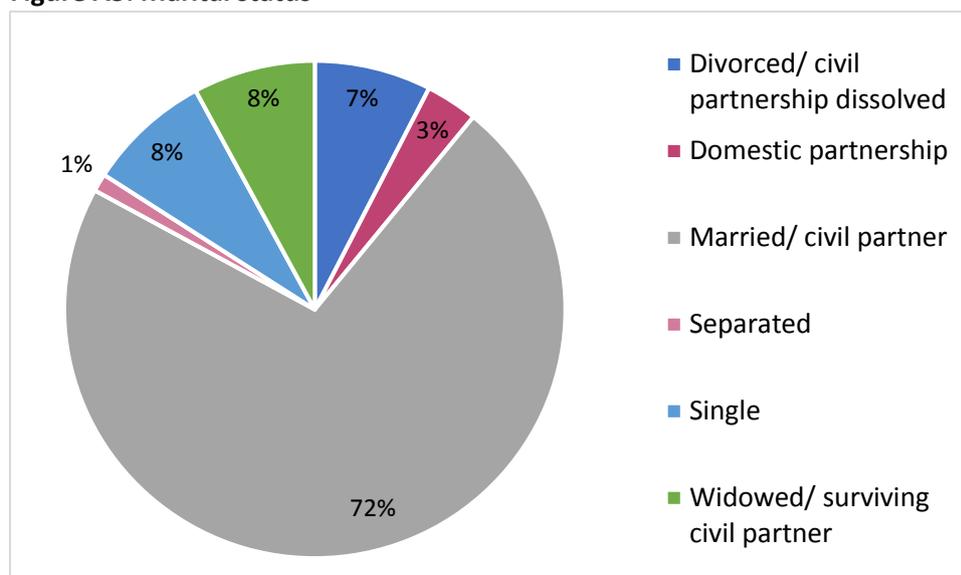


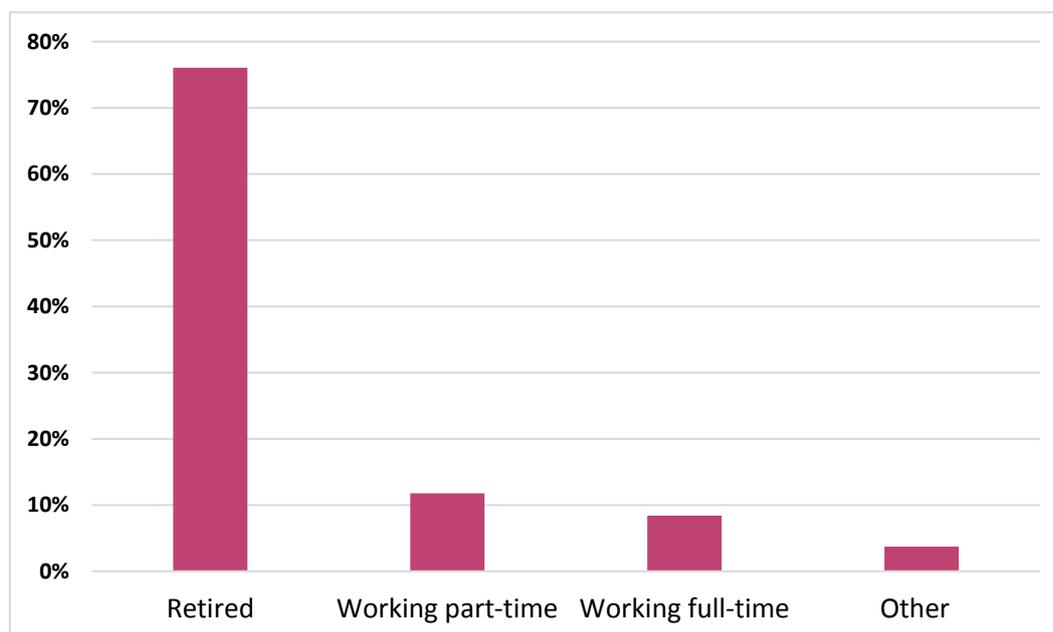
Figure A3: Marital status



More than three-quarters of respondents had children; the median number was two. Almost all these children were adults, and some were themselves of retirement age. 13% had children living with them, most of whom were in the 15-29 age group though a few were much older. 59% had grandchildren, with a median number of 3.

Three quarters of respondents were retired and 20% were still in work, mostly part-time (Figure A4); the pattern was the same for spouses.

Figure A4: Employment status



About half of respondents reported an annual household income of between £30,000 and £60,000 (Table A1). Those still in work had higher average incomes than those who were retired.

Table A1: Annual household income of respondents by employment status

	Retired	Working part-time	Working full-time
Less than £30,000	25%	19%	13%
£30,000 - £59,999	49%	43%	35%
£60,000 - £89,999	16%	15%	24%
More than £90,000	10%	24%	29%
TOTAL	100%	100%	100%
(Total number)	(469)	(75)	(55)

This cohort is a relatively privileged group, with three times as many in receipt of defined benefit pensions (56%) as defined contribution (20%). Most cover day-to-day expenditure out of income but there is also some reliance on investments/savings (Table A2).

Table A2: Sources of income for day-to-day expenditure (multiple responses permitted)

	%
State pension	63%
Defined-benefit (final salary) pension	56%
Income from investments	41%
Defined contribution (money purchase) pension	20%
Employment income from my job	18%
Drawing down savings or other investments	14%
Employment income from my partner's job	11%
Other benefits (eg Universal Credit, Disability Living Allowance)	10%
Other (please specify)	4%
Other pensions and annuities	3%
Rental income	2%

As expected, given that respondents were customers of Family Building Society, almost all them had savings accounts (Table A3). The pattern of their asset holdings suggests a relatively conservative approach to investment, with far more saying they held bonds (39%) than unit trusts or individual shares (23% and 2%) outside of pension savings.

Table A3: Types of asset held (multiple responses permitted)

	%
Savings accounts	75%
Pension savings	40%
Bonds	39%
Defined-benefit pension	30%
Investment trusts	26%
Unit trusts	23%
Rental property	17%
Other	10%
Individual shares	2%

Respondents were overwhelmingly owner-occupiers, with nearly two-thirds owning their homes outright (Fig A5). 58% had owned their current homes for more than 20 years, and some had purchased as early as the 1950s (Figure A6). Two-thirds had repaid their original mortgage more than ten years ago.

Figure A5: Ownership status

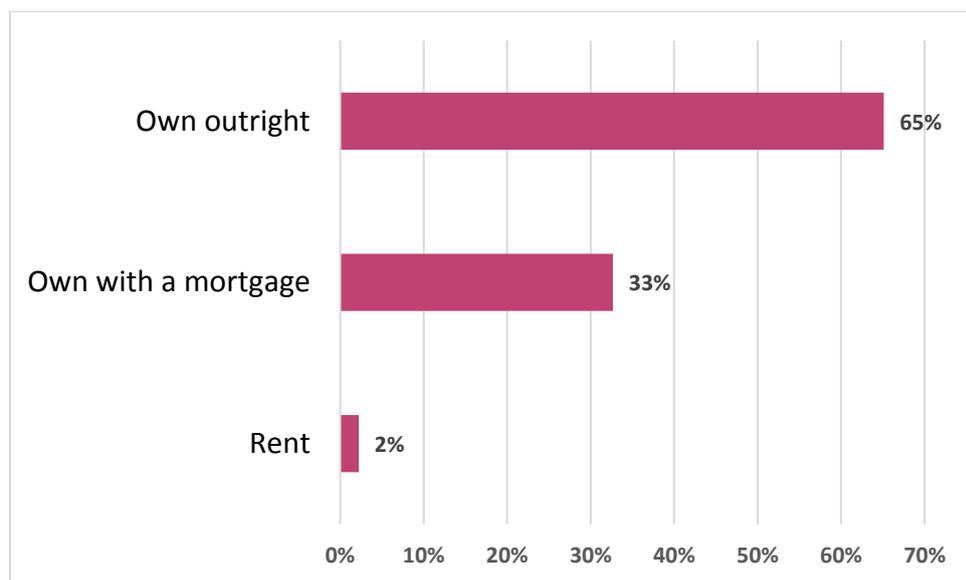
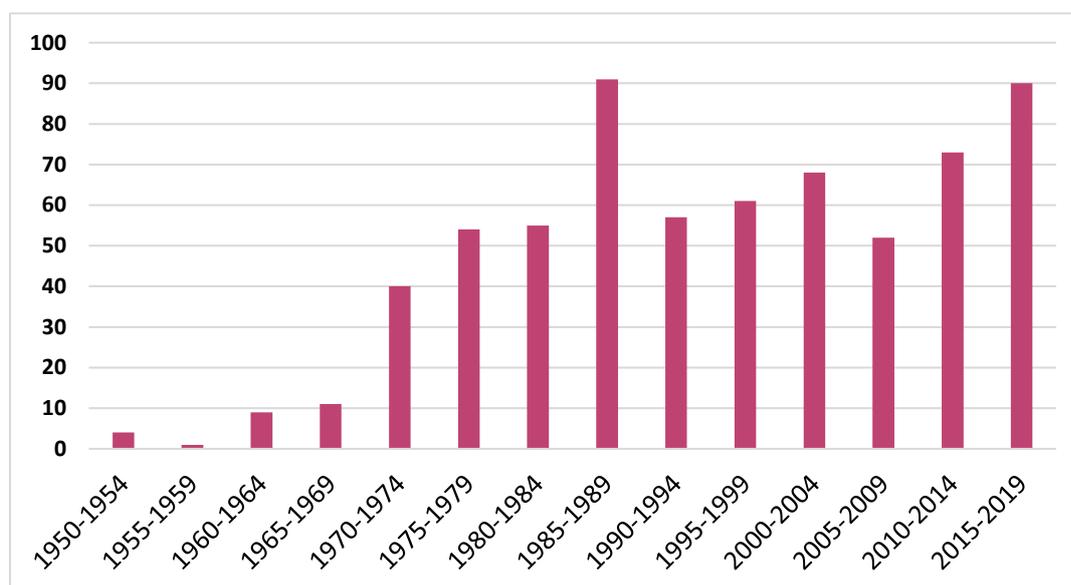


Figure A6: Year of purchase of main home



Most of the respondents lived in detached houses (Figure A7). Their assessments of their homes' current value clustered around £250,000 - £600,000 (Figure A8), with a long tail of houses worth substantially more.

Figure A7: House type of main residence

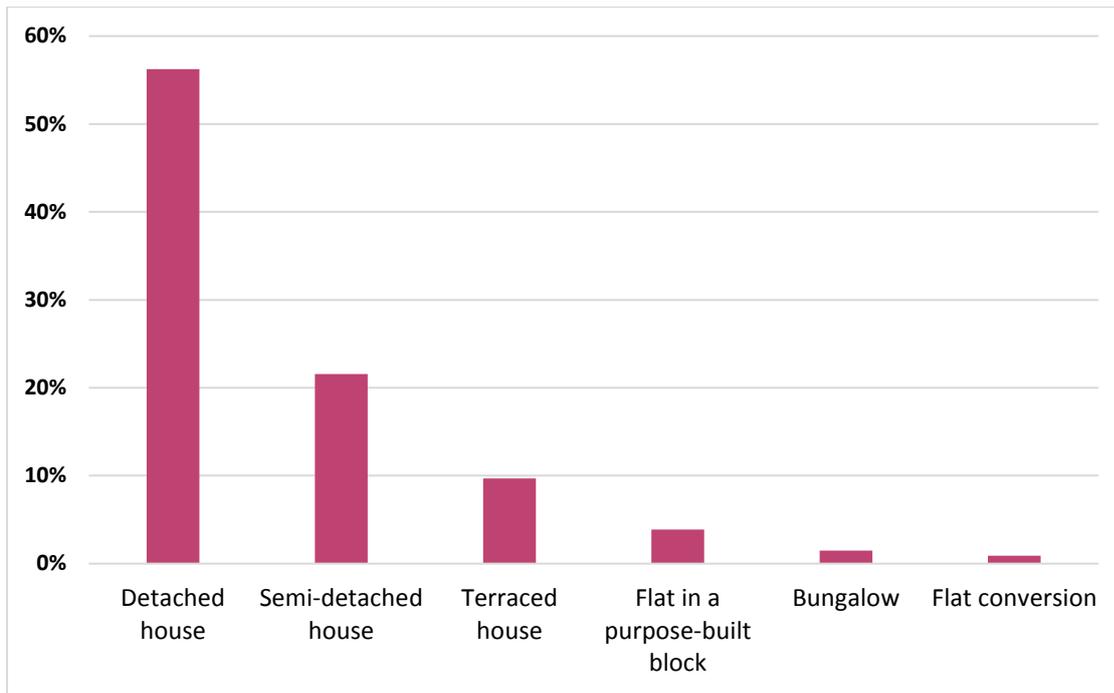
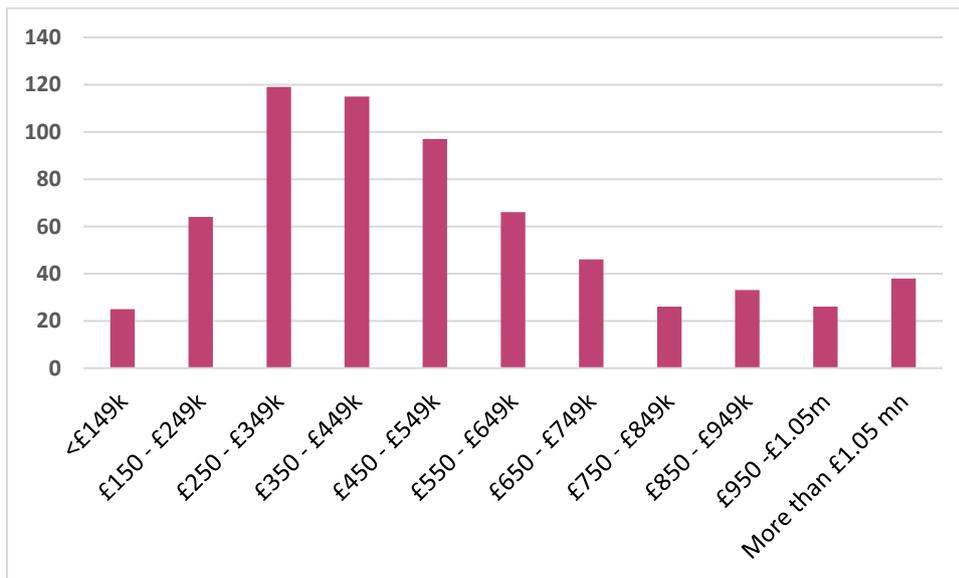


Figure A8: Estimated market value of main home



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