New Thinking and Old Problems: Reviewing Later Life Lending

Intermediary Mortgage Lenders Association

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INTERMEDIARY MORTGAGE LENDERS ASSOCIATION

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Foreword

From birth to death we hold considerable amounts of data on the age profile of our population. As individuals grow up and get older, unless the birth rate remains steady, the proportion of older people will gradually increase. That is precisely what has been happening in a number of developed economies – and the UK is no exception. ONS data shows that the over 65s are now the country's fastest-growing age group. Over the next half-century, this number is projected to grow by 7.5 million.[1]

This increasingly ageing demographic is prompting increasing interest in what has been termed the 'later life' lending sector. More and more, mortgage advisers and lenders are identifying the need for, and looking to develop, products which are specific to the over-55s, to serve the needs of this growing group.

The over-55s already have the highest homeownership rate in the country, and the available data suggests this is not slowing down. UK Finance reports that 187,210 new mortgages were completed in 2021 to borrowers aged over 55, with total lending amounting to £28.1bn.[2] In the last quarter of 2021, more than half of all new mortgages were due to end after the homeowner's 65th birthday.[3]

Meanwhile, those who already own outright – almost three-quarters of the over-65s[4] – may increasingly want to access the wealth held in the value of their home as they live longer. Some may need to boost their income, as the value of occupational or private pensions fails to keep pace with the rising cost of living. Others may wish to release funds to help the younger generation, whether that is with helping them to get onto the property ladder or contributing in other ways to living costs.

The days of paying off a mortgage after 25 years, and being able to retire on a decent pension, are gone for many individuals. Those who do own their own property may now be "asset rich but cash poor" – and those who are still in work but not property owners, or who still have large loans to repay, may foresee challenging financial times ahead. According to the Equity Release Council (ERC)'s 2023 'Great

Expectations' report, currently fewer than half of over-45s expect to have a 'healthy' financial situation when they reach state pension age.[5] Many may therefore look to the wealth that is tied up in their homes to provide an answer.

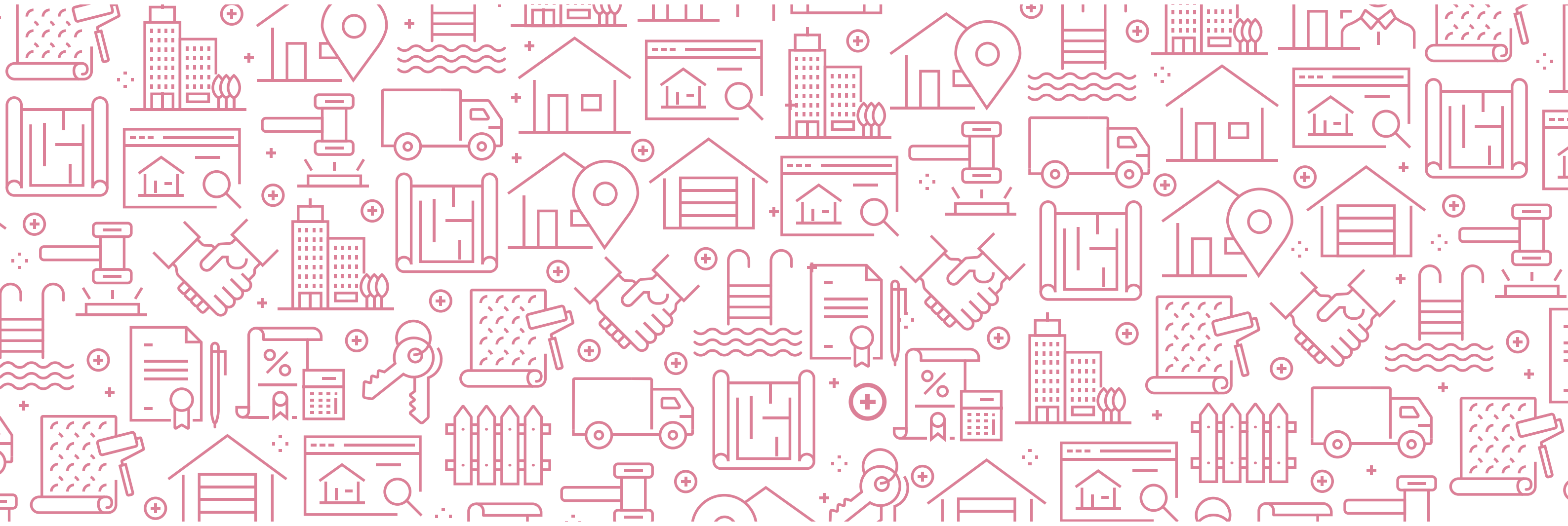
While the potential of this market segment is clear to many, it has suffered from problems in the past – caused largely by products which were not "future-proofed" in terms of protecting consumers from the vicissitudes of the market, not to mention some rather enthusiastic selling. Some products, which may have seemed perfectly reasonable when launched, went belly-up for consumers – causing reputational damage to the providers and a distinct and entirely understandable general lack of confidence. This has been largely addressed – first by the creation (in 1991) of SHIP – the Safe Home Incomes Plan organisation – which has since expanded and evolved to become the Equity Release Council. The combination of the ERC's voluntary rules with those required by the Financial Conduct Authority, now provides a substantial regulatory framework which works to protect consumers taking out equity release products.

But while equity release is one very specific aspect of later life lending, there are many other products and options available to older borrowers. In this report, IMLA has set out to shine a light on the 'later life' sector and ask how it can it be improved for intermediaries and their clients. Can we improve on the terminology and definiton of the "later life" lending sector and help to raise awareness, familiarity and confidence in products that may in future provide an essential lifeline to many?

We have compiled this report to offer some answers, and hopefully spark a few new questions for our industry to discuss.

Kate Davies
Executive Director at IMLA

Kate Davies



The rise of the over-55 borrower

We surveyed 1,000 over-55 UK residents to determine their views on the later life lending market and their current needs, alongside a survey of our own members at IMLA – who collectively represent approximately 90% of mortgage lending – to compare the lender perspective. What became clear is that the later-life lending sector is becoming more important every year, and yet potential borrowers are still very much in the dark about the product options available – or even whether borrowing when over-55 is right for them.

With many having benefited from decades of strong house price growth and paid off their mortgages, it must be noted that many baby boomers are content with their lot. In our survey, two-thirds (66%) were happy with their situation regarding their property and had no plans to change it. Another 17% simply wanted to pay off their mortgage.

Not surprisingly, those 65 and over were most likely to be settled. Among this group, 76% had no plans for significant changes, against 59% for the 55 to 64-year-olds.

This does still leave a sizable pool, however, who are still planning to downsize, upsize, expand, remortgage or draw on the value of their home in the next five years.

Moreover, 6% said they had already taken out equity release or a RIO, and more than a quarter said they'd consider taking out at least one form of later-life lending.

With this complex demographic in mind, by and large our research shows that lenders have made much progress in meeting the needs of an ageing pool of borrowers in a competitive industry. But more can be done to ensure products are fit for purpose, that innovation continues, and that borrowers understand their options.

What are your plans regarding your mortgage and property over the next five years?

8% want to change their primary residence

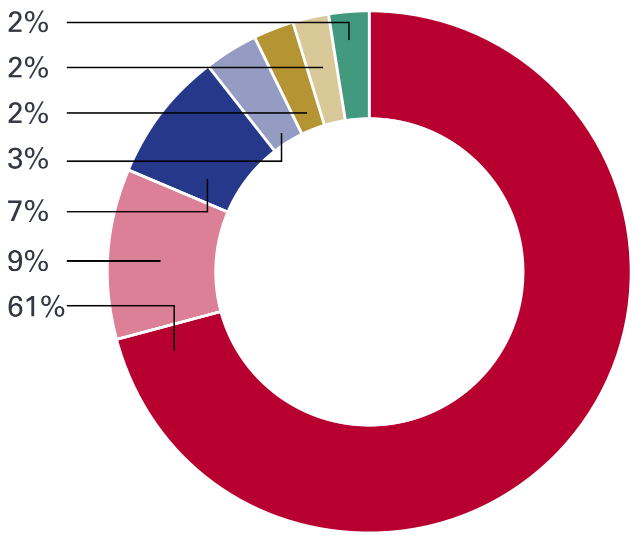
5% want to take some money out of their home

3% want to remortgage as they are unhappy with their current product

3% plan to move to rented accommodation

1% are looking to buy a second home or additional property

Levels of property ownership and types of mortgage product amongst over-55 homeowners:



- 61% own outright
- 9% don't know what type of mortgage product they currently hold
- 7% are on a standard variable rate (SVR)
- 3% are on a fixed-term interest-only product
- 2% are on a tracker
- 2% have taken equity release
- 2% have a Retirement Interest-Only mortgage (RIO)

A confusing backdrop

Given the increasing number of over 55s who may wish to borrow, it's to be expected that the market has grown to match demand. Lenders have certainly increased the pool of products available, but the sheer variety of options and the organic growth of the various solutions now on offer have introduced a new problem: a marked level of complexity, often leading to confusion.

This confusion is a significant barrier to the wider uptake of later life products. Indeed, a point highlighted by the ERC's recent 'Great Expectations' report (2023) was that, while aspects of the later life sector have become mainstream, many consumers and advisers don't recognise the changes that have taken place and still engage with later life products as a 'last resort' as a result.[6]

A particular point of confusion for consumers is the lack of awareness that some lenders do not put an age cap on their conventional term mortgage products. This means that a borrower looking to release equity after the age of 55 may potentially miss these products entirely, if only focused on what are currently termed 'over-55' or 'later life' products.

Data from Moneyfacts shows that the number of traditional mortgage products with age caps which are available to over-65s in the UK increased from 3,239 to 4,419 between 2014 and 2019 – the latest data available.[7] In particular, the number of products available to 80-84 year-old borrowers increased from 0 to 1,078 over this period, and we have seen no indication that this trend has slowed in the years since. Potential borrowers who assume they only qualify for 'later life' options may miss this fact when discussing their preferences with advisers.

The number of traditional mortgage products with age caps which are available to over-65s in the UK increased from 3,239 to 4,419 between 2014 and 2019.

Adding to this confusion is the divide between the mainstream advisers and brokers, and those specialists qualified to offer equity release. As many readers will know, extra certifications are required to offer advice on these products – either a Certificate in Regulated Equity Release from the Institute of Financial Services, a Certificate in Equity Release from the Chartered Insurance Institute or an Equity Release Mortgage Advice & Practice Certificate from the Chartered Institute of Bankers in Scotland.

The majority of consumers are unlikely to be aware that when it comes to (re)mortgaging when over 55, their mainstream adviser will need to refer them on to a specialist if they want to pursue equity release. While well-intentioned and largely necessary, this divide creates a further layer of complexity for lenders, advisers and clients to navigate.

With 84% of lenders surveyed agreeing that the number of products in the over-55 mortgage market would increase significantly over the next two years, education between and amongst advisers, lenders and industry bodies will ensure older borrowers get the right deal for them; that they are not automatically being sold equity release, for example, when a conventional mortgage may suit them better.

The current confusion around product types and suitability leads to one pertinent question: Is the current market and our definition of 'over 55' or 'later life' lending fit for purpose?

84% of lenders surveyed agreed that the number of products in the over-55 mortgage market would increase significantly over the next two years.

Melanie Spencer,
Business Development Director at finova,
and Head of finova Payment and Mortgage Services

“Clients over the age of 55 are not always fully aware of all the different later life products on the market, especially equity release. This is understandable. The later life market is still emerging, and with so many new products on offer, it can be tricky for consumers to keep track of what is available to them.

“To improve consumer education on the later life sector, we need to consider whether brokers are reluctant to introduce their clients to certain products because they are afraid of embarking down unfamiliar advice routes.

“As an industry, we need to empower brokers to know what they can and cannot do within their remit. For example, if a broker isn’t comfortable with advising on an equity release product themselves, they must understand the importance of referring a client to a trusted partner.

“For those who want to expand their skillset and knowledge-base, there are many options available, including additional qualifications and training.”

Market review: Fit for purpose?

There are undoubtedly issues caused by this complexity and confusion when it comes to ensuring that advisers and clients are able to access the right products, at the right juncture.

Our conversations with advisers have highlighted a lack of awareness and understanding of the options available amongst both consumers and some advisers themselves. Our survey revealed fewer than one in ten (8%) in the UK are familiar with both equity release and RIO, and confident in how each worked.

In comparison, 35%, of consumers were not at all familiar with later life mortgage products, and almost one in five (18%) felt that they do not know enough about the products to make an informed decision on taking out a 'later life' mortgage product in the near future. The need for greater clarity on this market segment is clear.

Lenders agree – more than half (52%) in our survey said that awareness of existing products targeting the over-55s needed to grow among both consumers and advisers. So, can a market with such issues serve its borrowers well? The results denote a split, with half (48%) of over-55s in the UK stating that they don't feel that the market currently serves them well and half saying the opposite. 15% say that although they are well-served, over-55s still lack access to as many products as younger borrowers.

The issue with consumers not being able to access the right product exceeds just the need for greater education, as more than two-thirds (68%) of lenders agreed that more product innovation is needed for the over-55s, while over a third (39%) agreed that there needs to be more standard residential mortgages available to these older borrowers.

But this is just one facet of the 'later life' products available, and many established lenders looking to expand into this demographic will be more suited to developing RIO mortgages, or exploring whether the age cap on their existing products could be removed or extended.

> 29% of lenders surveyed already offered RIO mortgages and a further 16% plan to bring new RIO products to market in the next two years.

29% of lenders surveyed already offered RIO mortgages and a further 16% plan to bring new RIO products to market in the next two years. The scope is there to meet the need for innovation, but new products would be better served by being launched into a well-understood and clarified market.

Beyond product innovation and a greater range of more traditional products for this demographic, lenders were split on whether there also needs to be greater choice of lenders serving these borrowers' needs, with 42% agreeing that this is necessary. Interestingly, across our members, not a single lender felt that competitively priced products were lacking in the market, again drawing attention to the importance of greater innovation and education.

Ultimately, the conversation regularly returns to education, for a reason: it's vital. The Financial Services Consumer Panel is among those who have pointed out the need for better tools and guidance for later-life lending, with a recent 2022 report into vulnerable equity release customers. Without greater knowledge, it argues, there is a risk that consumers "will not make a fully informed decision that is right for their circumstances". This may not be helped by the fact that different qualification requirements apply to those advising on mainstream and equity-release products - meaning that most intermediaries cannot advise across all parts of the market.

Vikki Jefferies
Proposition Director at PRIMIS
Mortgage Network

“We often hear from our advisers that older clients are coming into discussions about borrowing, whether with mainstream or specialist advisers, almost completely unaware of the solutions available to them. This is particularly true around the number of traditional mortgage products with extended or removed age caps.

“There’s a huge lack of awareness around the safeguarding and protective product features that are available, and the sector would really benefit from further education for both advisers and their clients to make informed decisions about ‘later life’ products. However, vulnerability is a key issue in the sector. As such, it is vital that each client receives financial advice which is tailored to their individual needs and circumstances.”

Craig Brown,
CEO, Legal & General Home Finance

“Later life lending and property wealth now play a significant role in modern financial planning. However, as this report shows, people are not always aware of all of their options. The home is a substantial asset for many, and our recent Equity Economy report found that younger people had a higher propensity to think about how they might use later-life lending to access the value in their homes, signalling a shift in attitudes in the future.

“To meet these changing attitudes, and to best support clients, lenders need to provide a range of suitable products, while advisers need to be able to present all available options on the market. Consumer Duty regulations coming into effect this year will help address this challenge, with advisers being encouraged to evolve their professional capabilities or make greater use of referral partners in their networks.

“It is really important that lenders continue to listen to both adviser and consumer feedback in order to best support customer outcomes and drive product innovation that will meet a diversity of needs. It won’t happen overnight, but the later life lending market is moving in the right direction to provide clear, holistic advice and recommendations. With increased life expectancy, later life wealth needs to last much longer, and a greater emphasis needs to be put on the role of the home in retirement planning.”

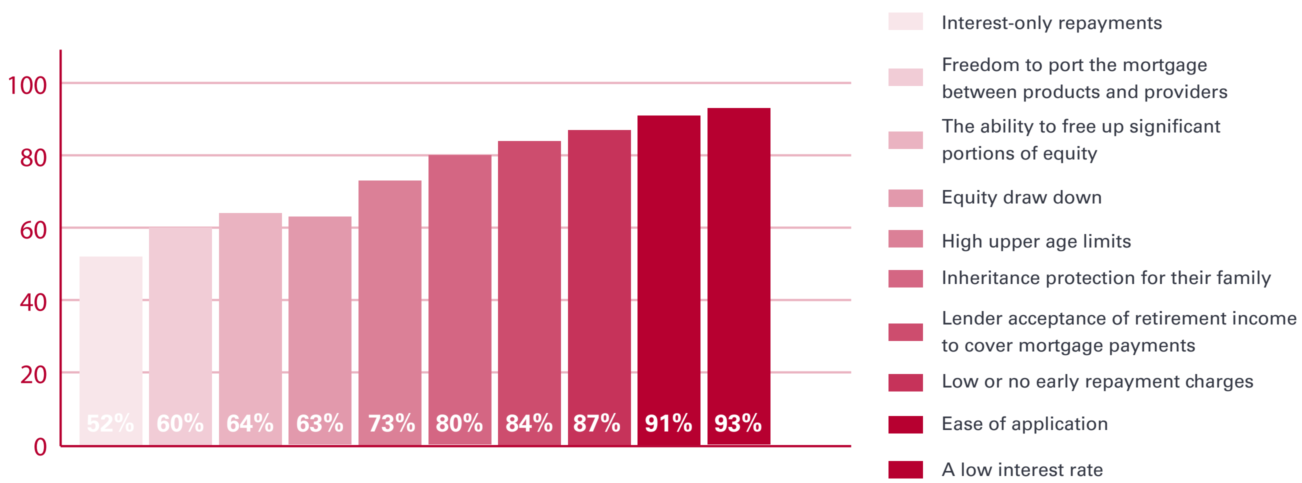
Developing the market

So, how can the sector overcome these barriers and unleash its full potential? Firstly, let's examine the consumer perspective.

Drawing on the value of their property is, of course, a key driver for many aged over 55 who are looking to borrow and is likely only to become more important in a sustained period of high inflation. Those who are asset-rich and cash poor are increasingly feeling the bite. In our survey, more than half (55%) of the over-55s reported that they might explore remortgaging or freeing up equity in the near future and 49% said that a likely motivator if they did would be to augment their retirement income.

However, whilst many share this need, the priorities of later-life borrowers vary widely. When asked what features would be important if they were to take out a mortgage product in future, respondents named a broad range of requirements as 'important'

If you were to take out a mortgage product in the future, which product functions would be important for you?



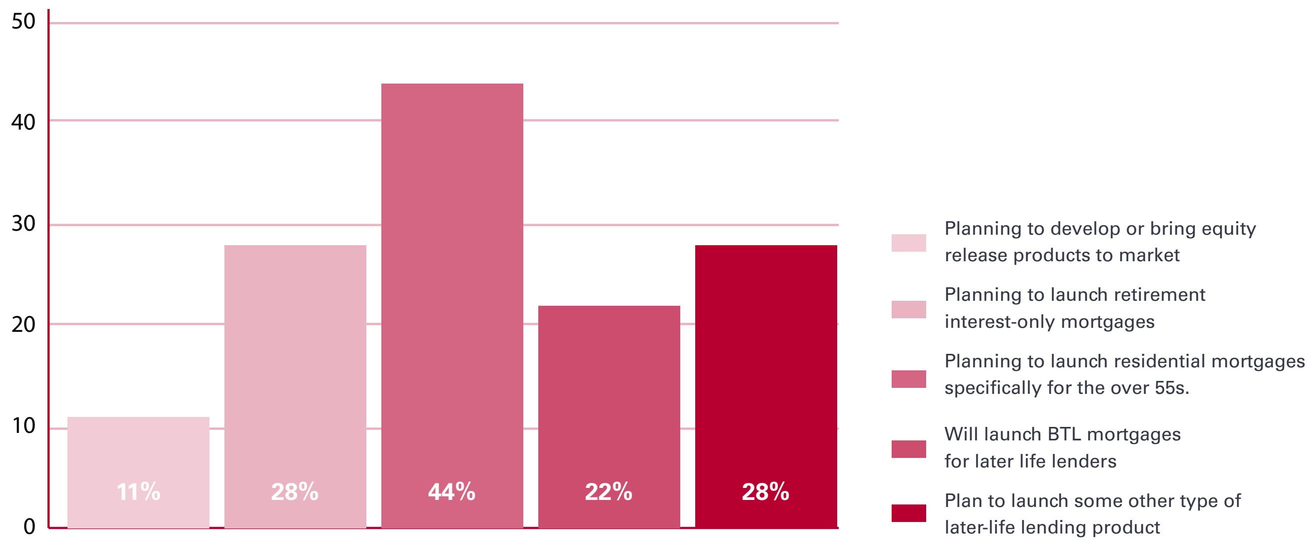
Products that are specifically developed to meet these priorities will not only prove most commercial, but will help give clarity for consumers on why they might want to consider each particular product range or option over another.

Creating specific products to meet specific priorities is one way for the market to overcome barriers around confusion and lack of product innovation cited earlier, but is this possible from the lender perspective?

In short, yes. 84% of our members believe the number of products in the over-55 mortgage market will increase significantly over the next two years. Overall, 44% are themselves planning to launch new products – 28% in the next two to five years – and these cover a range of options.

Providers' efforts in this area will – at least partly – answer one of the main barriers to growth in the later-life market identified by

Which 'later life' mortgage products do you plan to develop or bring to market in the next 2 years?



lenders – a lack of product choice (41%). According to lenders, lack of choice is a much more limiting factor than lack of demand (16%), so it is positive to see action to address this issue already in motion.

The signs of market development are strong, but two key hurdles remain: a lack of understanding among consumers and a lack of awareness among brokers.

These barriers should not be underestimated. Equity release providers and others have long tried to build awareness and understanding in their potential markets, through events, CPD offerings, online educational resources and traditional advertising and marketing campaigns. The research above suggests they have so far enjoyed only limited success.

What they have lacked thus far, however, is the combined effort and collaboration of the wider mortgage industry, something that may well soon come to bear on the issue as more lenders explore 'later life' product ranges. In particular, if a large part of the UK mortgage sector should put its weight behind increasing awareness and understanding of 'later life' products, one thing that it might wish to consider is renaming the sector to overcome the confusion around just what a 'later life' product is.

Steve Humphries,
Proposition Director for Later Life and Wealth at the Mortgage Advice Bureau

"The later life lending industry in the UK is certainly in a good place compared to 5-10 years ago, but there are still more improvements that can be made.

"Above all, we need a 'go-to' location for advisers and their clients to collate all the necessary information and education, from traditional mortgages for older generations right through to RIOs and equity release. Only then can we address the million-pound question, which is how to better link up mainstream and later life specialist advisers and provide a better customer journey that encompasses all the options available."

Conclusion

At least in part, the lack of understanding amongst consumers and advisers about the 'later life' lending market might have arisen because the language the industry uses to try to engage consumers has become outdated. Whether 50 is the new 40 or not, public attitudes to age have significantly changed over the last couple of decades, and so have the circumstances of borrowers in the over-55s segment.

The UK population is seeing many milestones – marriage, divorce, children – occur later and later in life as life expectancy increases. For instance, the number of people aged over 50 who are still in work has increased by over a third (36%) in the last 20 years, driven in part by larger numbers of those in their 60s sixties working for longer.[8]

And to look at the over 55s as some sort of niche is increasingly jarring. In 2020, there were more people aged 55 than any other age in the UK. Three years on, we should be accustomed to this demographic in our communities.

Much of this population is therefore unlikely to consider themselves in 'later life'. At the same time, the growing ranks of over 65s and over 75s may not automatically think discussions about the 'over-55s market' are relevant to them.

Moreover, 55 as a threshold for 'later life' discussions made sense

when this was the age at which individuals could access their private pensions. With that due to change (in 2028) to 57, and the timeline for the state pension age (currently 66, but due to increase to 67 between 2026 – 2028, subject to further possible debate after next year's General Election), the division is likely to seem increasingly arbitrary.

Perhaps it is time to ditch the labels and accept that 'later-life' lending is simply "lending" – we can then focus on what matters: providing greater consumer choice, ensuring consumers understand the options available and innovating products to fit the diverse needs of the individuals in this growing demographic. The task will be for lenders and intermediaries to collaborate and dispel the haze of catch-all terms and shallow definitions that surrounds the market.

All of these aims will increase innovation, reduce confusion and both raise and improve consumer and adviser education – the main issues our report has identified as being the barriers to the growth of this market segment.

Methodology

Data in this report was gathered as part of IMLA's 'Reviewing Later Life Lending' research, including a survey of 1,000 people in the UK aged over 55 conducted in August 2022 and a survey of IMLA's 53 member lenders. For some charts, respondents who replied 'Don't know', 'None of the above' or 'Prefer not to say' have been removed to aid clarity, however these percentages are still factored into the final figures.

IMLA also coordinated with various industry experts to source sector-led perspectives.
Many thanks from IMLA to all contributors, sources and respondents who supported this research.

All views are contributors' own.

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