How the cost-of-living crisis has changed the way customers use equity release

The last three months of 2022 saw a significant shift in consumer behaviour within the equity release market.

Using the product for discretionary purposes, such as cruises and conservatories, has declined and is being replaced by more needs-based uses; repaying an existing mortgage, gifting and managing unsecured debt. And while economic uncertainty and the pressures on everyday spending persist, it's likely this trend will continue.

So how and why has customer behaviour changed? And what learnings can we take from last year to continue delivering great customer outcomes for today's clients?

The end of discretionary spending?

Equity release has always been a tool to address pressing financial needs such as repaying a maturing interest-only mortgage. But once outstanding debt has been taken care of, consumers often use the remaining funds to help boost their quality of life.

For example, according to Key's Full Year 2022 Market Monitor, 39 per cent of people cite home or garden improvements as a reason for releasing equity, but only eight per cent of the proceeds are used for this purpose.

But as rates climb back up from record lows and LTVs reduce, it's likely that people will wait and see before releasing additional funds to pay for more discretionary purposes – perhaps taking a smaller initial lump sum and making use of a drawdown facility.

So, how will equity release consumers change?

With the pressures of the cost-of-living crisis being felt across all generations, using equity release for gifting to family or loved ones is an area in which demand is expected to remain high. Over a million pounds of housing equity was released per day during the Stamp Duty Holiday, which finished in September 2021.[1]

And with the recent changes to Stamp Duty thresholds to help combat the cost-of-living crisis, the Bank of Mum and Dad, or Bank of Gran and Grandad, is likely to keep lending.

But the reasons the support is needed may diversify.

How has gifting changed?

Helping children or grandchildren get onto the property ladder is likely to remain at the forefront of homeowners' minds; especially as the average two-year fixed mortgage rate currently sits at 5.79 per cent – 3.41 percentage points higher than it was just 12 months ago.[2]

For a first-time buyer purchasing an averagely-priced property at £295,000[3] with a 5 per cent deposit over 35 years, this change in interest rate equals to a £574 rise in their monthly mortgage repayments – or a 58 per cent increase versus 2022.

However, by a homeowner gifting a little over £60,000 of their property wealth – the average amount gifted through equity release to help with a house deposit last year[1] – the first-time buyer could reduce their monthly mortgage repayment by more than 20 per cent.

But sadly, it's not just mortgage rates that have increased amid the cost-of-living crisis. Fuel, credit cards and food have all become significantly more expensive, meaning we could well see more customers using equity release to support their loved ones with more everyday spending alongside the bigger ticket items.

Nevertheless, while the desire to support the wider family is no doubt something many parents share, it's not necessarily a possibility for all; especially those who need to manage their own debts and/or are seeing their own household expenses increase beyond their disposable income.

How has using equity release to service and consolidate debt changed?

Last year saw a steady increase in people using equity release to manage debts. Almost 60 per cent of the total amount released – £3.48 billion – was used for this purpose.[1]

The largest increase in use case, however, belonged to credit cards – with 39 per cent of people using at least some of their funds to repay this form of unsecured borrowing, compared to 29 per cent the year prior.[1]

One reason for this change may be the recent rise in credit card rates. In a lower inflation environment customers may choose to continue to make ongoing repayments to clear this type of borrowing. But with rates hitting a 25-year high in September last year, monthly repayments can be substantial and squeeze people's already tight budgets.

And with the average credit card rate climbing yet again at the start of 2023 – reaching 30.4 per cent this month[4] – it's safe to predict consumers will continue to look towards equity release and other financial solutions to help tackle this kind of debt as the year continues.

How equity release can still be the answer in the cost-of-living crisis

Even in today's higher rate environment, equity release can still be the right option for many consumers. Modern lifetime mortgages can provide security, flexibility and the opportunity to achieve financial peace of mind.

Features and benefits

There are still more than 300 plans available across the equity release market. And even though there's been a reduction in availability as a result of the mini-budget last year, levels remain higher than before the pandemic.[5]

The plans available are also still feature-full. The no negative equity guarantee, the option to serve interest or make ad-hoc capital repayments to help manage the size of the loan, guaranteed property tenure; the great protections that served customers so well in a different market still remain in place and are arguably more relevant today than ever before.

Rates and LTVs

Rates are higher than they were. And LTVs are lower. That's today's equity release market compared to six months ago. But it's important to remember that it's relative. And there are still a significant number of plans that could help meet your clients' needs.

The lowest lifetime mortgage rates, which, remember, are fixed for life, start with a five.[6] The lowest lifetime RIO rate is, in fact, a little higher.[7] And SVRs fluctuate between five and eight per cent.[8] So, while rates are higher, it's important to remember they remain in line with other forms of later life borrowing.

And with LTVs, clients can still access up to 46 per cent of their property's value, tax-free. In an averagely priced home, that's north of £135,000 – around £30,000 more than the average release in 2022.

So, while plans aren't the same as they were pre-September last year, equity release is still a suitable option for a wide range of customers and circumstances.

Working with your clients and lower LTVs in 2023

As customer behaviour evolves, your advice must follow suit. While good LTVs are still available, some clients may find they can't access all the cash they want immediately.

However, this shouldn't be a reason for them not to go ahead with equity release – if it's right for their personal situation. This is particularly prevalent if your client is considering equity release to help manage existing debt. Equity release could help offset some of their burden; such as a soon-to-expire interest-only mortgage or costly credit card, and still improve their financial resilience and provide peace of mind.

And by working with your client, you can help prioritise their debt and identify how to meet some of their goals, if not all, in the way that's going to deliver the best customer outcome, both now, and for their future.

It's also important to remind your client that the lifetime mortgage they choose today doesn't necessarily have to be their plan for life. So, should they not be able to service all their immediate needs, they may be able to remortgage and release more money later down the line to meet any outstanding goals.

1. Key's 2022 FY Market Monitor
2. Moneyfacts Treasury Report, Cited Property Eye
3. ONS
4. Moneyfacts
5. Air
6. more2life
7. Equity Release Supermarket
8. L&C Mortgages

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