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Later life borrowing
New mindsets: Old silos

The advice framework for older mortgage customers

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the Building Societies Association by Jackie Wells & Associates

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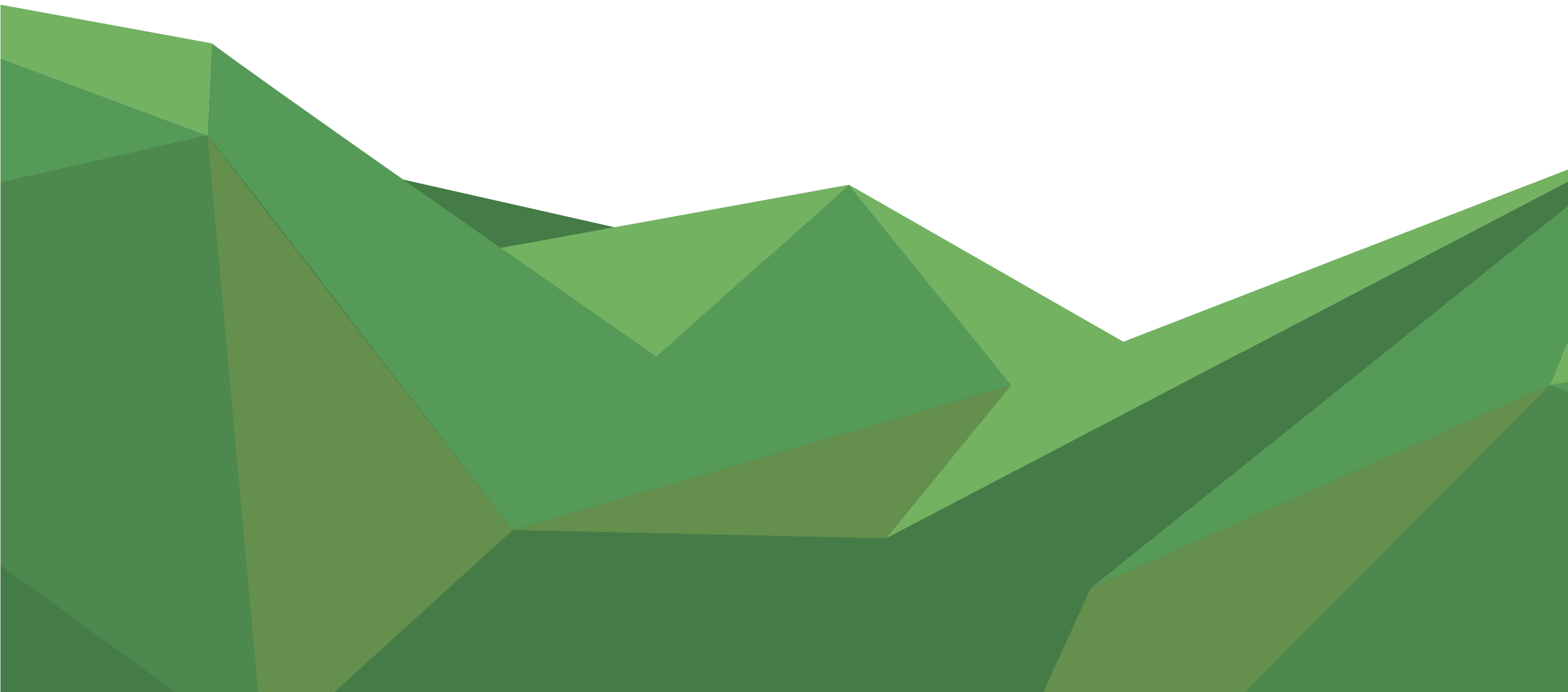

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The views expressed in this report are those of the authors and do not necessarily reflect those of the Council of Mortgage Lenders.

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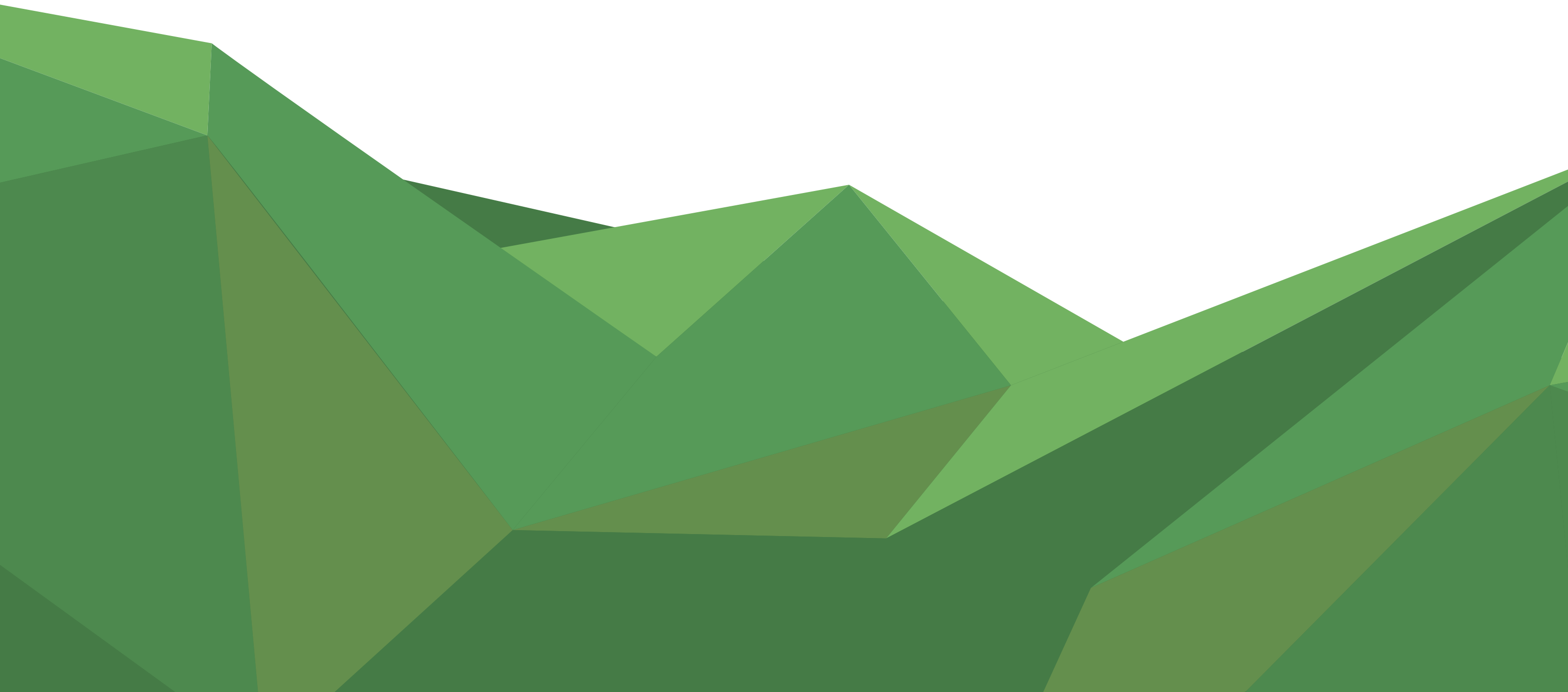
Chapter 1: Introduction



Introduction

Much has changed in the UK mortgage and equity release markets in the years since the start of the global financial crisis. Regulation has fundamentally changed the sale and advice process for lenders, intermediaries and for consumers in relation to residential mortgages[1]. Equity release[2] lending shrank in the immediate aftermath of the crisis but has since bounced back.

Mortgage lending criteria have been tightened and new affordability and suitability criteria introduced, a move which, for a while, led to many lenders capping the upper age for mortgage borrowing. Although age limits can be justified, this move was reversed in principle by many lenders. However, it remains the case that lending to older borrowers remains subject to restrictions.

In the equity release market, new lenders have emerged and new products have been developed in response to the changing needs of the older population and some of the criticisms of older, less flexible products.

In spite of some relaxations in lending by mainstream residential mortgage lenders and improvements in the flexibility of equity release products, there remain concerns that older borrowers may not be well-served by the market. In particular, this research asks whether the way in which advice is received, delivered and regulated is delivering the best outcomes for consumers.

1.1 Research objectives

This research project was commissioned by the Council of Mortgage Lenders in January 2017 to explore the subject in more detail. The research was undertaken between February and May by Jackie Wells & Associates, a team of independent consultants led by Jackie Wells. The central objective of this work was:

> "To explore how the advice process could be strengthened for households wishing to borrow beyond their expected retirement age or post-retirement. This should cover mainstream residential mortgage lending, lifetime mortgages, equity release products and other 'hybrid' mortgages."

The research was designed to address a number of specific questions relating to consumer needs and behaviour as well as the response of the lending and advice industry.

The aim was to conclude by offering ideas for practical reform to the advice process relating to older borrowers, and set out the benefits such reforms would have for the future development of such activity. In researching the advice framework, it was also understood that it would be necessary to consider lending and product issues as well as advice.

1.2 Research structure and approach

In order to meet the project objectives, three streams of research were undertaken:

1. An extensive programme of desk research designed to explore the existing data and research available on the subject of later life borrowing and industry engagement with this part of the market;

2. 20 interviews with industry and consumer body stakeholders designed to understand the stakeholder perspectives on this market (further details are available in Appendix One);

3. 20 depth interviews with consumers aged 55 or above who were engaged in or had recently been engaged with borrowing against their property (further details are available in Appendix One).

1.3 Report structure

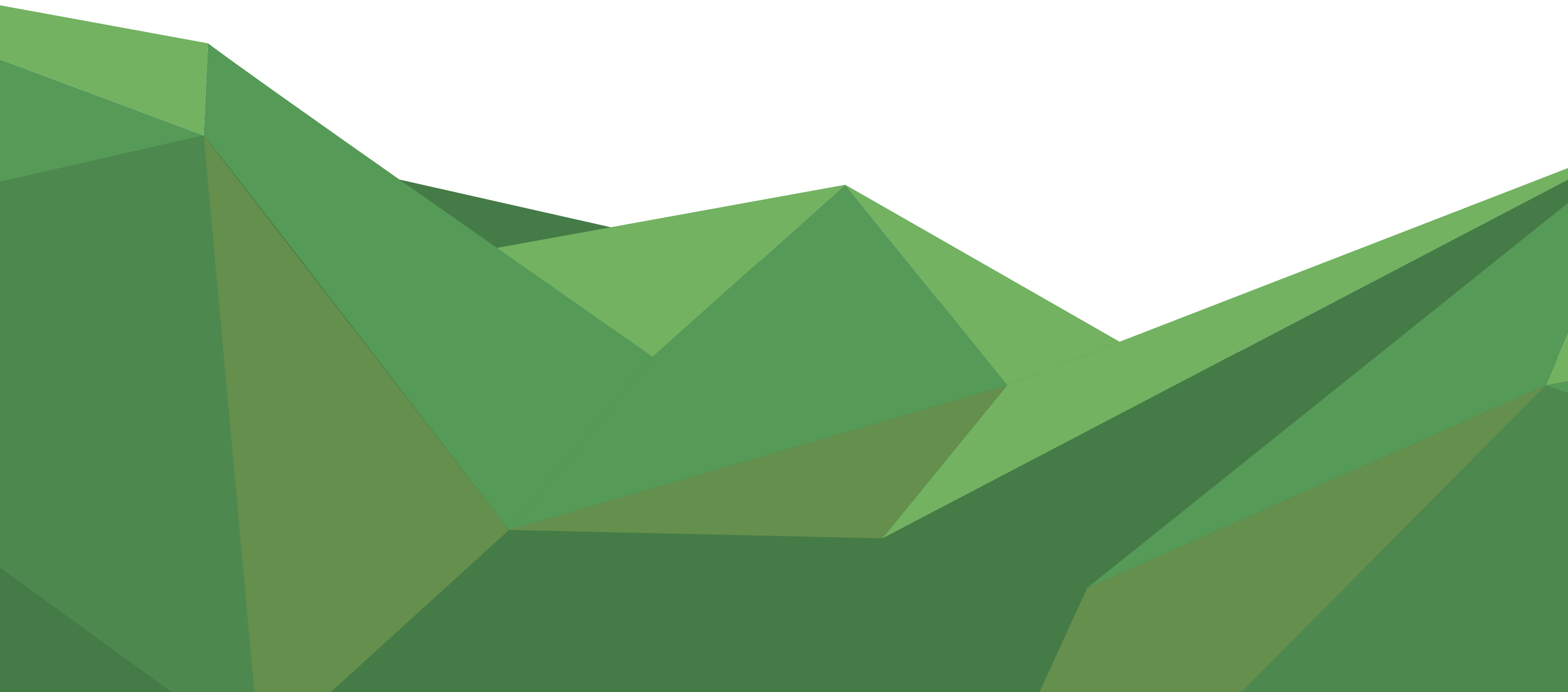
We begin this report in section 3 by exploring what is driving demand for borrowing in later life and the current statistics for borrowing.

In section 4 we then examine current and emerging attitudes to borrowing in later life, how the market segments and the customer journey, before drawing some conclusions about consumer product and advice needs.

In section 5 we describe the market structure within which the current advice framework operates and explore what issues and barriers there are to meeting consumer needs.

Finally, in section 6 we draw our conclusions about the gaps in the advice framework and lending landscape and recommend solutions that may narrow those gaps.

Chapter 2: Executive Summary



Executive Summary

This report examines the advice framework for those borrowing against their property in later life, explores whether current and emerging consumer needs are being met by the existing framework and suggests ways in which needs could be better met.

It highlights that:

- Later life borrowers are not always served well by the current advice framework, in particular in helping consumers navigate the market and to understand the full suite of options open to them;

- For these consumers the 'market' is largely one of retirement finance rather than asset accumulation and that, as such, the mindset of the consumer and the industry are not always well aligned.

The authors have suggested a suite of recommendations designed to address the gaps in the market suggested by the research.

2.1 Growing demand for borrowing in later life

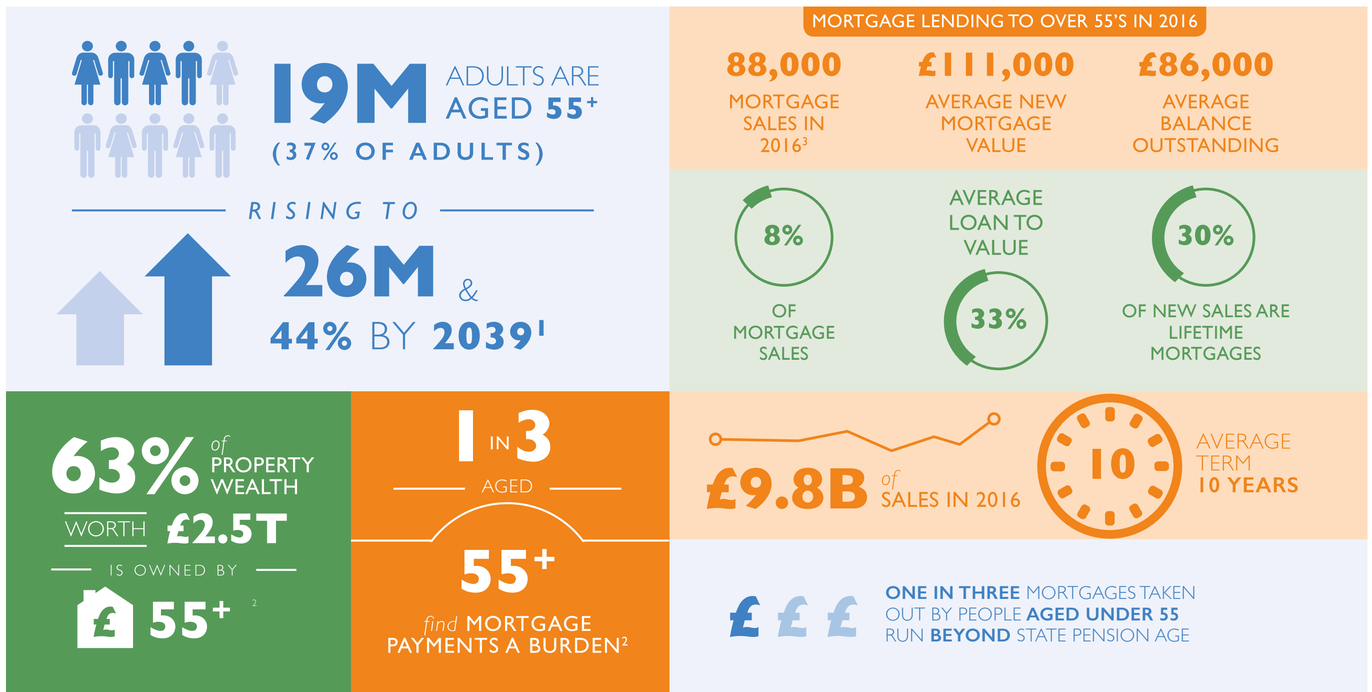
Demographic change, economic pressures as well as policy and regulatory reforms are combining to highlight the growing issue of borrowing in later life.

Data do not exist that can point to levels of unsatisfied demand for later life borrowing. Demand for borrowing in later life is difficult to assess fully because it includes not only those who borrow but also those who would like to borrow but find other solutions such as spending less, working longer, downsizing or selling their home.

However, just examining the data from those who are successful in borrowing in later life suggests that the market is growing with regulated mortgage sales to this group increasing in both nominal terms and as a share of all lending, and sales of lifetime mortgages rising in number and value.

The key statistics and trends are summarised in Figure 1. below.

Figure 1:
Summary of trends in demand for later life borrowing



The borrowing trends among the over 55s are, and will continue to be, fuelled by many different factors:

- Exogenous factors such as the economy, housing market, longevity, mortgage reforms or pensions policy; and
- Endogenous factors such as changing attitudes to borrowing (a subject that we explore in detail in the next section of this report), divorce, changing working patterns or intergenerational pressure within families.

In practice, of course, there is also a complex feedback loop between these two groups of drivers.

The drivers and trends imply that more and more households aged 55+ will be seeking mortgages of various kinds at early and later stages of retirement.

2.2 A new consumer mindset

Research suggests that today's retirees have greater expectations of their retirement and lifestyle as well as bearing more of the responsibility for their retirement welfare. Attitudes regarding the home as potential bequests also appear to be changing with retirees willing to use at least part of their assets for themselves or passing on money to family before death.

A new mind-set is beginning to be evident among the older population. Property ownership is no longer just about accumulating an asset during working life. When necessary, and somewhat reluctantly, it is also about extracting value from the equity in the home during retirement. For some, the idea of paying off their mortgage fully and never borrowing again is vanishing.

"It's a crazy amount of money (tied up in the property) and if we don't want to move, we'll never need that, so we may as well use it"

(Consumer Interview)

However, today's cohorts approaching and in retirement are proud that they have been part of the 'trailblazer' generation who were in the vanguard of wider home ownership and lucky to have gained from a period of rapid house price inflation. Their home remains a place of safety and protection and says something to others about their status.

"everybody buys property, you feel you want to own your own property"

(Consumer Interview)

They are reluctant to relinquish control of their equity and, particularly at this stage of their lives, are cautious, risk-avoiders and see many financial products, especially non-mainstream ones, as risky. However, they are not prepared to live a life of poverty simply to retain and pass on its value.

"We've had to struggle, why should we live a pauper's life for your children. They're comfortable, they have good jobs"

(Consumer Interview)

Borrowing is not where they expected to be: they expected a pathway to retirement that would give them a reasonable income, an adequate rainy day fund, and their home owned outright. However, some are finding that, for various reasons (life events, work, health, family, lack of planning), they haven't achieved that position.

2.3 Consumer needs vary by segment

Not all later life borrowers have the same product or advice needs. At one end of the spectrum, there is a group of borrowers who have over-stretched their borrowing, have an inadequate income to sustain a residential mortgage and sometimes insufficient equity to make a lifetime mortgage feasible. At the other end of the spectrum are those who are generally managing well in retirement but are looking for a little more luxury or are using their property equity as a form of tax and inheritance planning. In the middle are those who have reached retirement without all of the finances they hoped and need to continue to borrow in one form or another.

Whichever segment people find themselves in, borrowing in later life is proving challenging for many. Research suggests that they enter the market (either looking to extend or renew their mortgage or starting to borrow again) with a poor understanding of their own goals, what products are available to fulfil those goals, what criteria they have to meet to borrow and where to go for help and advice. Furthermore, they approach borrowing in later life having experienced first-hand, or knowing others who have experienced, misselling of financial products and, as a result, may be sceptical about the financial services industry, in particular advisers. They tend to avoid anything that they either don't understand, with which they or others have had a negative experience or that requires them to engage with parts of the market with which they are unfamiliar.

2.4 A fragmented and complex journey

For many respondents in this research project, the journey towards a solution to their borrowing needs was lengthy, fragmented and complex in many cases with periods of hiatus while they either put their research on hold or explore different sources of help and funding.

For a few of the consumers interviewed in this project, they start the process knowing what they want and how to go about getting it. However, for others, they are less clear and the first port of call is a high street lender, typically the largest banks and building societies. They start the process with high expectations. After all, they have a long history of being good customers, meeting their commitments and building up equity in their home.

"Financial things are all set up for young people… They need to recognise that we've built up equity in the property and reward us with a lower interest rate for that, not punish us with such a high rate"

(Consumer Interview)

Their experience can be quite different and a shock. They can encounter barriers and restrictions to getting mainstream mortgages that they feel are unfair. They may be left feeling rejected and not knowing where to turn next. They are very unlikely to be referred or signposted to others that will lend either a residential or a lifetime mortgage and are unlikely to know a broker or adviser that can help.

The lack of signposting by the high street lenders to lifetime mortgage advisers or lenders can add to a sense of mistrust of the product. Nobody that they respect is telling them that this option is OK.

A sense of panic, or a desire to simply ignore the problem for as long as they can, may then set in. They become aware that they are out of their comfort zone and have some difficult and taxing decisions to make.

None of the respondents to this research were entirely comfortable with their experience and some were dissatisfied with the outcome. It is important to note that we did not assess outcomes in full as part of the research. However, feelings can be summed up as 'frustrated, worrying, disappointing' and 'too many surprises'.

2.5 The current advice framework

The current framework for delivering guidance and advice to those seeking to borrow money against their property (principally their home) as they approach and enter retirement operates largely in two distinct silos:

- Lenders and intermediaries who lend and provide information and advice on residential mortgages.

- Lenders and intermediaries who lend and provide information and advice on equity release products (mainly lifetime mortgages).

The two parts of the market have a number of important differences: products, funding models, risks, lenders, advisers, remuneration and regulation. All of these serve to emphasise the differences between the markets whereas customers' needs and preferences would seem to suggest that the markets are in fact one. The different structures also create incentives for advisers to sell one product or the other but typically not both.

There is also evidence from this research that the two markets also have very different attitudes towards borrowing in later life. Banks and building societies have traditionally viewed borrowing as a means to accumulating equity and a retirement free of debt. The lifetime mortgage lenders see borrowing in later life as a means of helping customers extract value from the accumulated equity.

A combination of mortgage conduct regulation, prudential regulation, risk appetite, business models and pension reforms is making it difficult for some organisations to lend to older borrowers in the residential mortgage market. Larger residential lenders are not able to adjust their business model easily for the more tailored older borrower market while smaller lenders will lend but are more difficult for consumers to find. The lifetime mortgage market is evolving and growing but is small compared to the residential mortgage market, is 100% reliant on the intermediary market and has few links to the residential mortgage market.

Mortgage brokers are not typically geared up for more complex older borrower market while most lifetime mortgage advisers do not deal with residential mortgages. Advising older borrowers can be more time-consuming and more expensive and incentives are not aligned to the costs of advice for this market. Moreover, there is not a level playing field between remuneration for residential and lifetime mortgages which may be playing a role in shaping the market. There is little advice that covers all of the potential borrowing needs of those in later life and even less that would cover the borrowing and other financial advice needs of this group.

For borrowers who may need to move between the two markets or who may wish to weigh up the advantages and disadvantages of each market, there is no single obvious place to go and no joined up framework for addressing their needs.

2.6 Towards a new advice framework

Prima facie, the structure of the market does not appear to be aligned to the needs, expectations and preferences of consumers seeking to borrow in later life.

In particular we find that:

- Consumers find it difficult to navigate the full market because of the silos in which it operates and in particular cannot access advice on the full market in one place;
- A number of supply-side factors are reinforcing the silos including the different funding and regulatory regimes, the different levels of remuneration for advisers between the two parts of the market; and differences in attitudes to lending to this part of the population;
- Consumers are frustrated at barriers to borrowing that are put in their way, some of which can seem to them unfair or inappropriate;
- Consumers find the products available don't fully meet their needs and that products are difficult to compare and understand.

The reasons for this are complex and bound up with the technical structure and history of lending in the UK. As such, they cannot be resolved easily or quickly.

There is no simple, single change that would improve the market for older borrowers. Many of the solutions will require a commitment across the two market silos identified earlier in this report with support from the FCA and PRA and the engagement with the pensions industry as well as the new single public financial guidance body.

The market is gradually changing and new solutions are being considered and developed. It may be that the market will find solutions to some or all of these problems. Any changes that might constrain change or place significant additional costs on the industry (and hence on consumers) need to be weighed carefully to ensure that any such constraints or costs are outweighed by the overall benefits to consumers.

This research suggests that further work should be carried out in two areas:

Helping consumers navigate the market: Consumers need help navigating the full market with access to information, guidance and advice on all products that may be suitable for them.

Ultimately, the needs of these consumers will be best met if they can access advice across the market from brands that they trust. However, we recognise that the journey towards this goal may take a number of steps, not least because the regulatory regime separates the two parts of the market and advising on both parts of the market brings additional costs to firms and consumers. Those steps could include:

1. Signposting later life borrowers to information and help available from the new single public financial guidance body (SFGB) or other independent bodies that produce integrated information across the two parts of the market;

2. Developing generic material that can be passed to later life borrowers that explains the full range of options available to them;

3. Signposting or referring later life borrowers to an adviser who can provide advice across the two parts of the market;

4. Providing in-house advice that bridges both parts of the market.

In time, if industry solutions are not successful, the FCA may wish to explore ways of bringing the two parts of its mortgage conduct rules closer together and reviewing whether the suitability rules need amending for later life borrowers.

Facilitating this change may also require work to consider the best way forward in terms of advice incentives.

Designing products to support retirement: While the review focused on the advice framework, it nevertheless highlighted some issues with product design. The two parts of the industry have moved some way in recent years to develop products that better meet the needs of this demographic. However, there remains some way to go in aligning product design in both residential and lifetime mortgages to the needs and preferences of older borrowers. Greater flexibility across all products will help the industry better serve the needs of this consumer group, albeit that this may also come at a cost.

The recommendations are summarised in Table 1 below:

Table 1: Summary of recommendations

Helping consumers navigate the market. *Government, industry and regulators should find ways to ensure that consumers seeking to borrow in later life are provided with information, guidance and advice which considers both forms of lending (residential and lifetime mortgages).*	1. The SFGB should explore ways of helping integrate support across residential and lifetime mortgage sectors for older consumers and, if possible to integrating this with pension guidance as part of planning for and support in retirement. 2. Guidance services and industry should look to develop better tools to help consumers compare and evaluate objectively their later life borrowing options. 3. The industry should encourage and facilitate an expansion of advice services by advisers to include both residential and lifetime mortgages. 4. Lenders and advisers operating in this market should consider how best to deliver a more joined up approach to advising later life borrowers, firstly by evaluating the costs and benefits of the four options set out above. 5. Back-office systems that support advisers across both residential and lifetime mortgages for older borrowers should be developed to help improve information flows and reduce the cost of the sales process. 6. To facilitate clearer navigation of the market for consumers, the FCA and industry should continue to work together to better understand the economics of delivering advice to older borrowers and explore ways in which incentives can be aligned to support more integrated advice.
Designing products to support retirement. *Encouragement from the FCA, trade and professional bodies and others for residential mortgage lenders to review the appropriateness of the lending criteria and affordability rules for older borrowers and further initiatives by the lifetime mortgage market to improve flexibility and reduce costs.*	7. Regulators and residential mortgage lenders to explore how to explore how they judge affordability in retirement, taking account of income from investments, savings, DC pensions and state benefits. 8. Regulators and residential mortgage lenders to explore whether attitudes towards repayment mechanisms should be adapted to include sale of property and/or transfer to a lifetime mortgage. 9. Lifetime mortgage lenders to continue to build more flexibility into lifetime mortgage products to allow partial or full early repayment of interest and capital with lower costs for doing so.

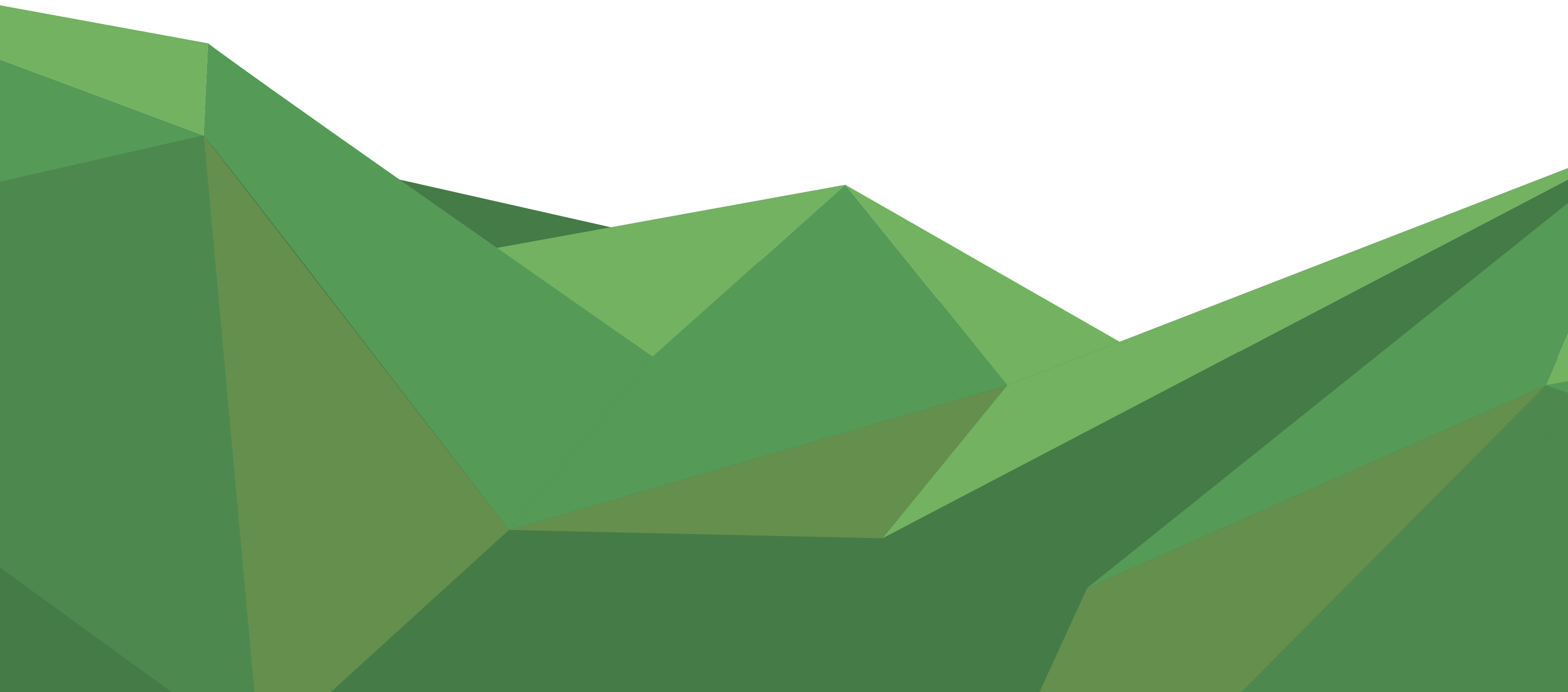
2.7 Aligning mindsets

It was clear from this research that the consumer and industry, in particular the residential mortgage lenders, have different attitudes to borrowing in later life. The industry view is undoubtedly, and rightly, influenced by the need to ensure that they are lending responsibly and that the organisation's tolerance for risk is not breached. However, the view that people should not borrow in later life and that mortgages should always be repaid in full before earned income ceases seems to be out of kilter with both the realities of later life and the new mindset emerging among consumers.

The starting point for considering a new advice framework is therefore to create clarity across the market as to what consumer need it is servicing, whether a residential or a lifetime mortgage. **The market is not one of accumulating an asset but one of supporting retirement finances.** Changing the view of what the market is could help in considering how best to meet customer needs and more closely align demand and supply.

There are many positive signs that industry and regulators are open to a new dialogue on meeting the needs of older consumers in a responsible but fair manner; not least the work already being done by the lenders and advisers in both parts of the market as well as the FCA's ageing population project. However, the findings of this project suggest that further work by industry and others is needed in the field of later life borrowing to bring the attitudes and behaviour of the industry closer to the needs and expectations of the later life consumer.

Chapter 3: Later life borrowing trends and drivers

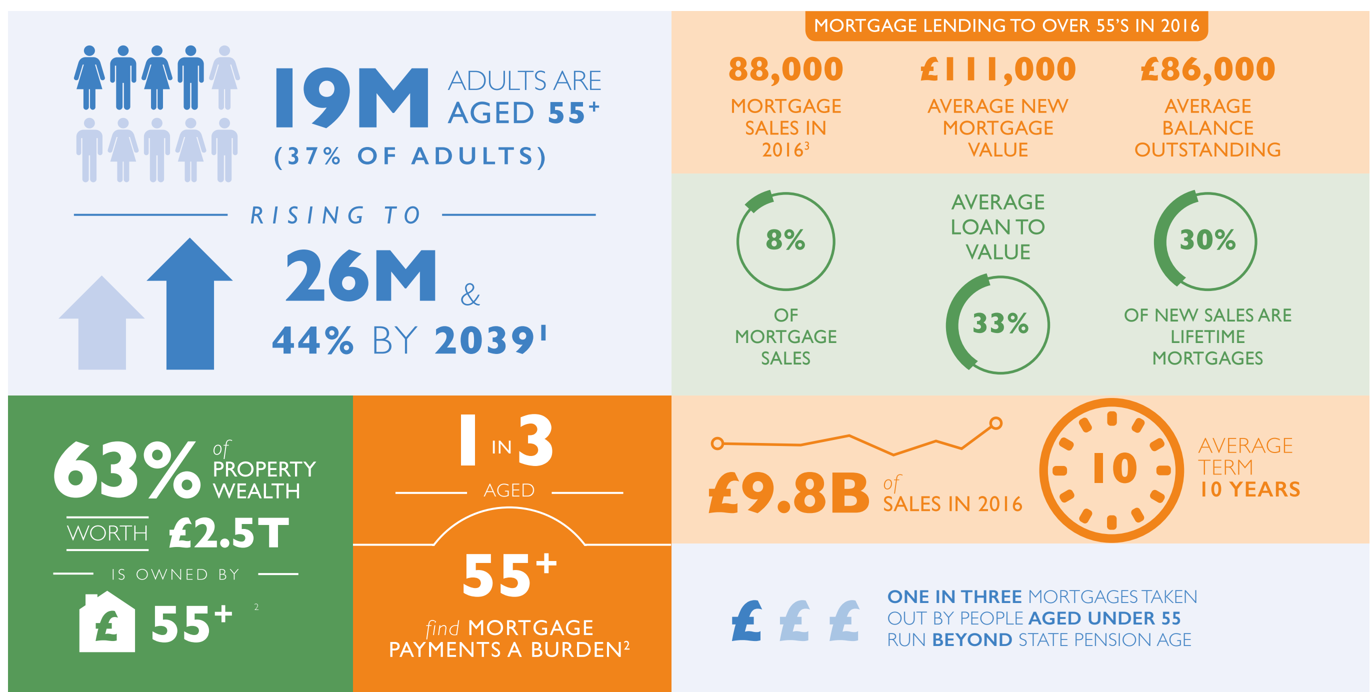


Later life borrowing trends and drivers

Before examining the needs of consumers aged 55 and over, we explore the trends in borrowing and the drivers of future borrowing needs.

The statistics and recent, trends summarised in Figure 2 below, illustrate the growing demand for borrowing in later life. Demand is gradually increasing as both the number aged 55 and over increases and a number of drivers combine to make retirement finances more fragile and more people find themselves entering retirement with mortgage and other debt.

Figure 2:
Summary of trends in demand for later life borrowing



3.1 Two generations aged 55 and over

Households headed by individuals aged 55 or over[3] number approximately 11.8 million (46% of all GB households), with the number growing as more and more baby boomers enter this age group and longevity continues to rise. Individuals aged 55+ in 2016 numbered 19.4 million in 2016[4] and represented 30% of the UK population. Low projection forecasts made by the Office for National Statistics (ONS) suggest that the aged 55 and over could number 25 million by 2039.

The over 55s represent broadly two generations: the 5 million born before and during the second world war and now aged 75 and above; and the 14 million, their children, aged 55-75 (most of whom would be categorised as baby boomers).

3.2 Assessing the scale of demand is not straightforward

Demand for borrowing in later life is difficult to assess fully because it includes not only those who borrow but also those who would like to borrow but find other solutions. Some older consumers who find themselves income constrained in later life or unable to repay a mortgage can turn to strategies other than borrowing including:

- Constraining their expenditure in retirement sometimes resulting in poor welfare in later life;
- Working longer;
- Downsizing; or
- Selling up and either renting, moving into a care home or moving in with family; or
- Relying on family for financial support.

Data do not exist that can point to levels of unsatisfied demand for later life borrowing. However, just examining the data from those who are successful in borrowing in later life suggests that the market is growing with regulated mortgage sales to this group increasing in both nominal terms and as a share of all lending, and sales of lifetime mortgages rising in number and value.

3.3 Over 55s hold £6.4tr of wealth and £2.5tr of property wealth

The generations currently aged 55 and over include those who took advantage of the liberalisation of money markets and the resulting boom in mortgage lending in the second half of the 20th century. Home ownership was also boosted by the sale of social housing created by the 'Right to Buy'[5] policy of the Conservative Government in 1980. As a result, many people aged 55 and over now own their own homes outright. According to the 2012-2014 Wealth and Assets survey (WAS), 59% of households headed by an individual aged 55 or more own property outright while a further 16% own property but still have a mortgage. This leaves one quarter of these older households who do not have any property wealth, either because they never acquired any or because they have sold their homes and are in care or living with other family members.

The total financial, pension and property wealth of households with a household reference person (HRP) aged 55 and over amounts to £6.44 trillion of which net property wealth accounts for 39% or £2.5 trillion with pensions as the overall largest proportion (45%). 80% of the wealth of the over 55s is held by households with an HRP aged 55-74 and 20% by households aged 75 and over. Property wealth becomes a more important component of wealth with age (as pension wealth is drawn down).

Property wealth is concentrated in the over 55s with those households holding 63% of the wealth. By contrast, property debt (mortgages) is concentrated in households aged below 55 (85%) with older households owing just 16% of mortgage debt.

Median[6] household property wealth (among those owning property) is £200,000 among the 55 or more age group (£282,000 mean[7]); greater than median pension wealth of £153,215 (£305,000 mean) or median net financial wealth of £25,480, £104,000 mean).

3.4 Rising levels of mortgage debt in later life

Despite the positive picture of wealth and property's contribution to it, there is evidence that household debt is increasing among those aged 55 and more.

Mortgage debt among older households rising faster than other groups

ONS WAS data show that 1.9 million households aged 55 or more (16% of households) had property debt amounting to £160 billion (15% of all property debt) in 2012-2014. This represents an increase of 45% over the amount of mortgage debt held by this group in 2006-2008. Over that same period, total mortgage debt rose by only 10%. As a result, the over 55s share of mortgage debt rose from 12% to 15% of all mortgage debt.

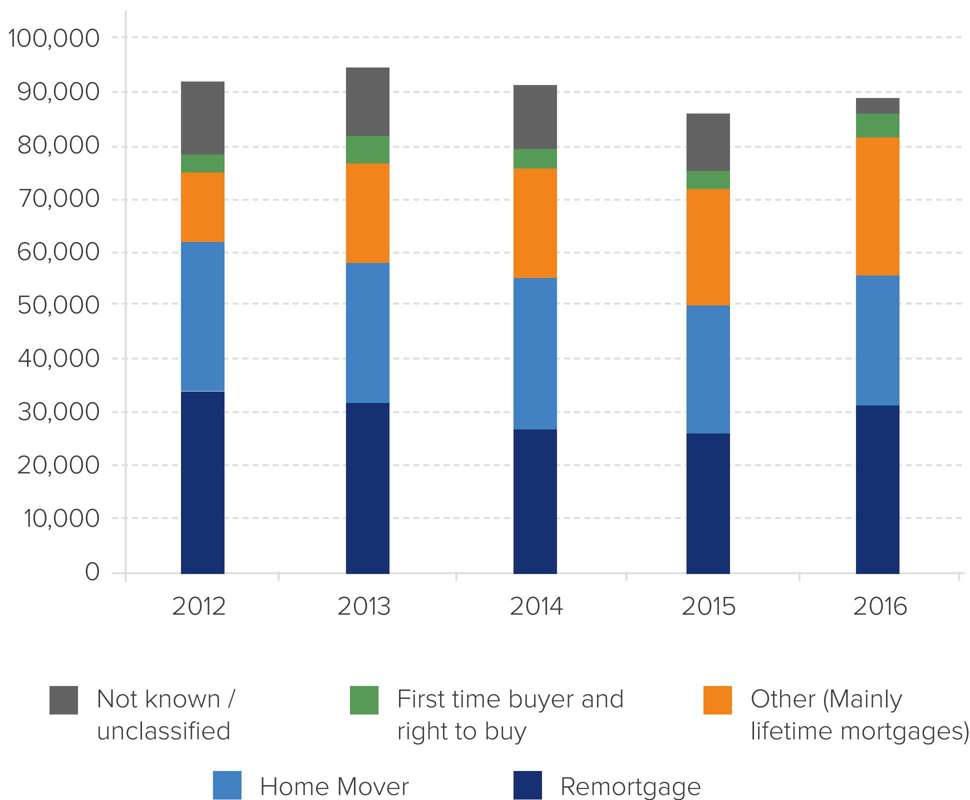
Of the £160 billion, the majority (73%) was owed by those aged 55-64, with 27% of debt with households over state pension age, most in the age group 65-74.

Median debt stood at £48,000 with a mean of £85,000 (among those with mortgage debt). Regional variations are wide – highest in London (£121,000 mean) and the South East (£102,000 mean) and lowest in Wales and the North East (£62,000 mean). The amount of property debt declines as the 55 or more population ages but shows a slight increase among those aged 80 and more.

Mortgage borrowing by over 55s beginning to rise again

Analysis of CML sales data suggests that the number of those aged 55+ borrowing fell in 2014 and 2015 following the implementation of the FCA's Mortgage Market Review but rose again slightly in 2016, in part due to many lenders increasing their maximum age criteria. Sales growth was driven by an increase in remortgages and the sale of lifetime mortgages ('other' sales in Figure 3).

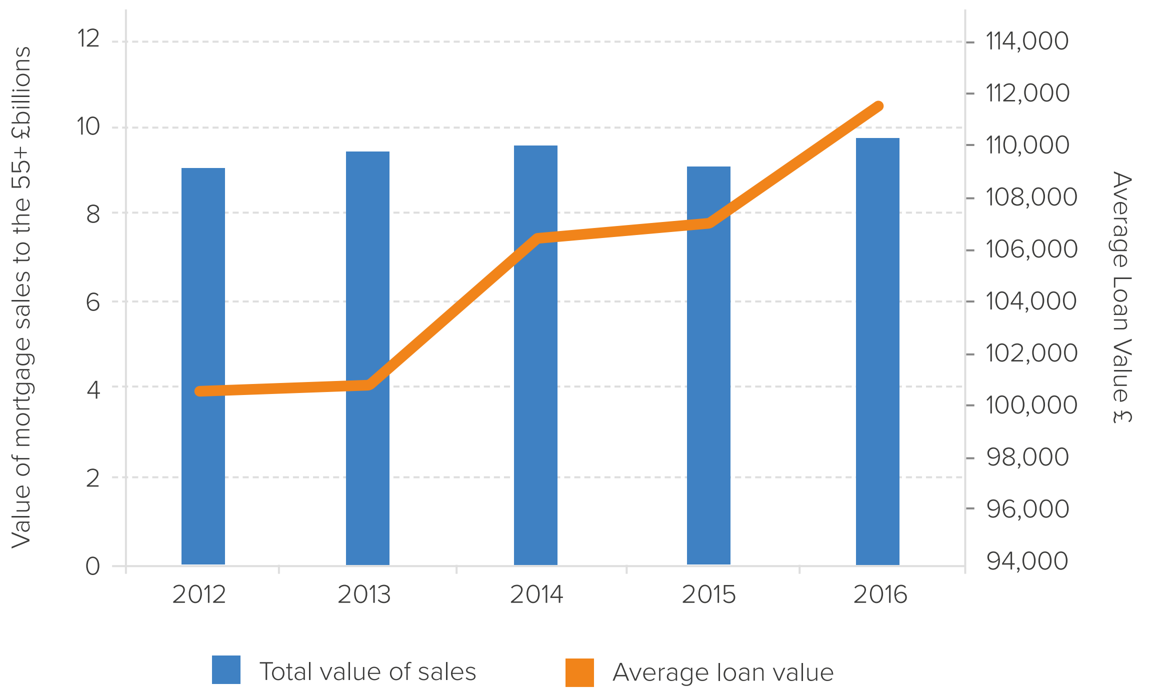
Figure 3:
Number of mortgage sales to those aged 55 and over by type of borrower, 2012 - 2016



Base: All aged 55 and over. All regulated mortgages
Source: CML Regulated Mortgage Survey (RMS)

Although the number of sales fell, the annual value of mortgage sales to this age group rose from £9.1 billion in 2012 to £9.8 billion in 2016 (with a fall in 2015 back to £9.1bn). The average amount borrowed rose steeply in 2014 and 2016 (Figure 4).

Figure 4:
Total and average value of sales to those aged 55 and over, 2012-2016



Base: All aged 55 and over. All regulated mortgages
Source: CML Regulated Mortgage Survey (RMS)

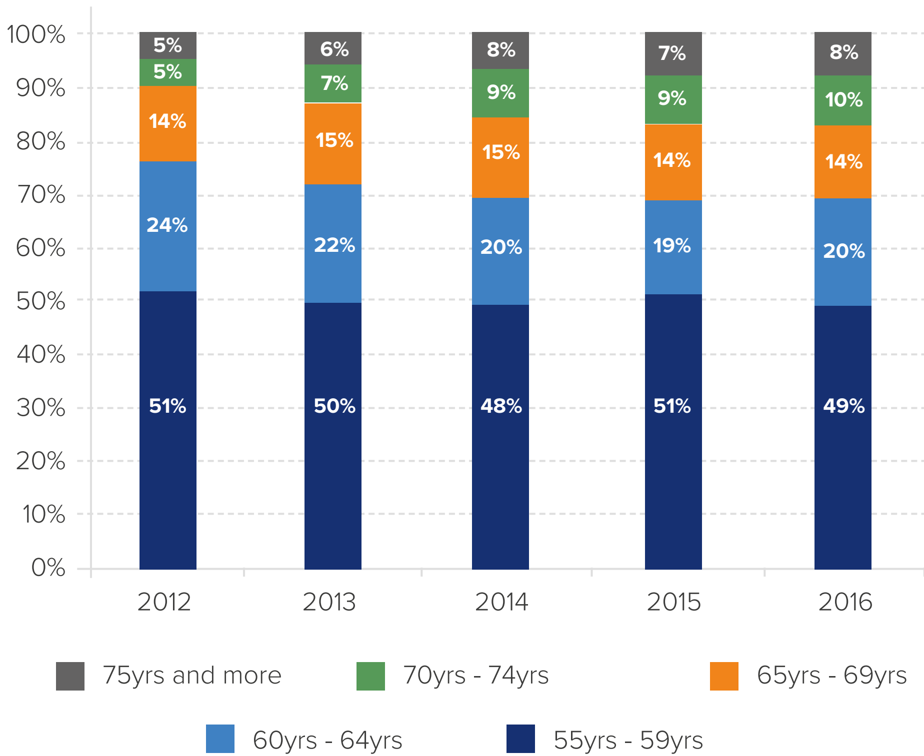
Later life borrowers borrow £111,000 on average and are ageing

Though mortgages of less than £50,000 still account for the largest proportion of sales to this age group, the value of mortgage sales has been slowing increasing in recent years. From 2012 to 2016, the average (mean) loan size has increased by 11% to £112,000.

Analysis of CML data also reveals that the average age of those taking out a mortgage after age 55 has been rising steadily.

Figure 5 below shows a gradual change in the age profile of those aged 55 and more taking out a mortgage. The proportion of later life mortgage sales to those aged 70 and more has almost doubled from 10% in 2012 to 18% in 2016. This is in large part due to the increase in lifetime mortgage sales (included in these data and analysed in more detail below).

Figure 5:
Mortgage sales by age, 2012 - 2016



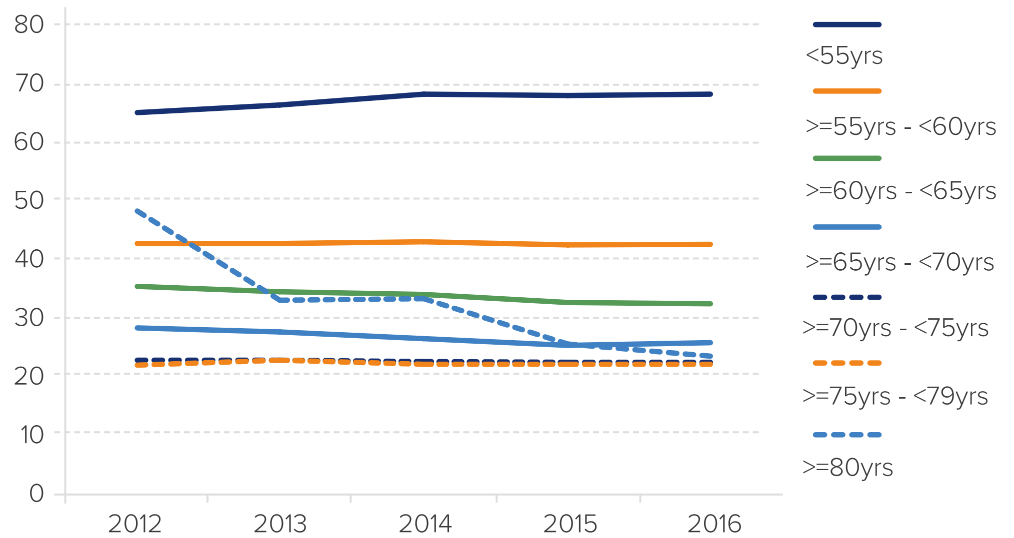
Base: All aged 55 and over. All regulated mortgages
Source: CML Regulated Mortgage Survey (RMS)

Mainstream residential mortgages account for the majority of mortgage sales (71% in 2016) to the 55+ age group but this is down from 86% in 2012. Lifetime mortgage sales account for most of the remainder.

Average loan to value remains low

Average loan to value (LTV) ratios decline with age (Figure 6) with LTV's of around 21% for those aged 70 or more compared to approximately 42% when aged 55 to under 60 years. The under 55's have the highest LTV of 68%.

Figure 6:
Loan to value ratios by age, 2012 - 2016

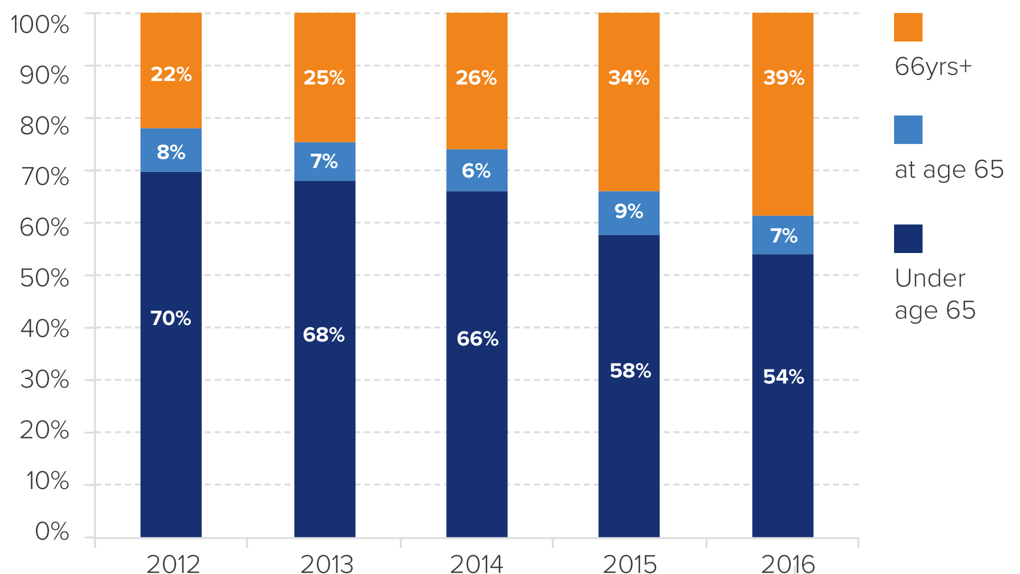


Base: CML: All mortgage sales population. All regulated mortgages
Source: CML Regulated Mortgage Survey (RMS)

More households entering retirement with outstanding mortgage

More people are entering retirement (for the purposes of this analysis assumed to be age 65) with mortgage debt. Almost 40% of new mortgage sales in 2016 are due to end after age 65 (Figure 7) compared to 22% in 2012. Borrowers are not only carrying more mortgage debt into retirement but they will also carry it for longer.

Figure 7:
Age at which mortgage ends, 2012 - 2016



Base: CML: All mortgage sales population. All regulated mortgages
Source: CML Regulated Mortgage Survey (RMS)

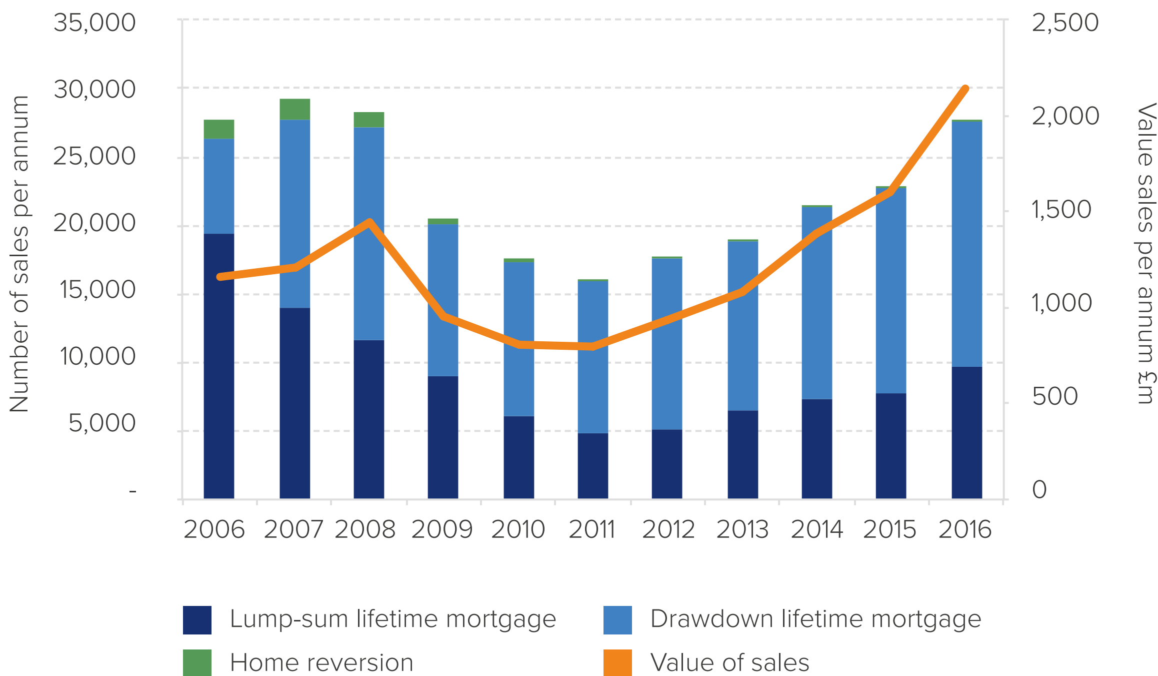
Lifetime mortgage borrowing has risen since 2011

According to WAS data (2012-2014), just 1% of households aged 55 or over (95,000) have some sort of formal equity release product; the proportion remains unchanged since wave one (2006-2008) of the survey.

However, lifetime mortgage borrowing has been rising in recent years. Data from both CML and the Equity Release Council (ERC) indicate that sales have grown since 2011 reaching more than 25,000 new lifetime mortgage sales in 2016. While sales fell immediately after the global financial crisis (GFC), they have nearly returned to pre GFC levels with drawdown lifetime mortgages (where lump sums can be drawn down over time) now representing approximately two thirds of sales with the remainder being single lump sum withdrawals.

The value of lifetime mortgage sales has increased in a similar pattern with initial advances in 2016 valued at £2.15 billion and the average value of sales standing at £78,000. These values include the amount drawn down from facilities made available at the point of sale.

Figure 8:
Number and value of equity sales by year



Source: Equity Release Council sales data

CML data suggest that lifetime mortgage sales have risen from 16% of all mortgage sales to those aged 55 and above in 2012 to 29% in 2016. This is in part a function of declining residential mortgage sales following the implementation of the FCA's mortgage market review. More than half (55%) of sales are to those aged 65 to 74 with little fluctuation year on year between age groups. 49% of sales in 2016 were made in the South East, the South West and the East of England.

3.5 A combination of factors fuelling borrowing trends

As noted by an earlier report for CML[8], “there are a number of factors that will increasingly drive demand for additional sources of finance in later life as individuals take on greater responsibility for securing their financial security and well-being”. The borrowing trends among the over 55s are, and look likely to continue to be, fuelled by many different factors:

- Exogenous factors such as the economy, housing market, longevity, mortgage reforms or pensions policy; and

- Endogenous factors such as changing attitudes to borrowing (a subject that we explore in detail in the next section of this report), divorce, changing working patterns or intergenerational pressure within families.

In practice, of course, there is also a complex feedback loop between these two groups of drivers.

Economic prospects put pressure on disposable incomes

In recent years, low interest rates, low inflation and rising house prices have helped to create a feeling of wealth among homeowners. However, earnings growth has been weak for many and inflation has started to bite in the past year. Earnings growth is expected to slow in the next two years and unemployment to rise[9], a factor that may inhibit residential mortgage lending to some older consumers as affordability measured by earnings declines.

House prices recorded their first fall for several years in the early months of 2017[10]. A number of commentators are expecting stagnation or slowdown in house price rises until 2019 as Britain negotiates its exit from the European Union[11]. While this may reduce the scope for lending, and therefore borrowing, other forces may still drive up the need for borrowing.

Inflation is expected to rise to levels of around 2.8% in 2018 and 2019, thereafter falling back to closer to 2%[12], stretching household finances across the board. Interest rates are also forecast to rise slowly over the period; good news for those with savings but less good for those borrowing on variable rates or re-mortgaging.

Those aged 55 or above also face other pressures on incomes including lower than historical and expected returns on savings, low annuity rates, inflationary energy and food costs, and, in later life, rising care costs and lower levels of support from local authorities.

OneFamily research found those aged 55 and over estimate spending £23,773 per year in retirement, even though the average income of a retired, single household in 2016 is just £15,800[13]. They forecast that cash-stripped retirees face an annual expenditure of more than £65,000 in 2050 on an income of just £38,000 – a difference of £27,000. Their research also found that homeowners can access on average £77,000 through equity release which OneFamily estimate is enough to plug the gap between income and outgoings for almost a decade.

Interest only mortgages more prevalent among older households

One of the current drivers of extended mortgages is the prevalence of interest only mortgages, popular as a means of borrowing before the financial crisis and MMR but since much more restricted. The over 55s are two and a half times more likely to have an interest only mortgage than those under 55. In 2016, 43% of mortgages among those aged 55 or over were at least partially interest only (down from 46% in 2015). Analysis by the FCA in 2013[14] found that one in five with interest only loans were not confident that they would be able to repay their mortgage in full at the end of the term. Since then lenders have employed contact strategies to ensure that borrowers are aware of the need to repay their mortgage and the CML worked with its members to develop its Interest only toolkit[15]. The FCA has recently expressed renewed concern about those customers whose interest only mortgages are due to be repaid by 2020 and will be investigating whether firms are treating customers fairly as they approach their repayment date[16].

Buy-to-let less attractive as an investment option

Aviva research[17] reports that 30% of households aged 45 and above have either taken action or plan to take action to raise money through property. Among those who have taken action, buy-to-let was the most popular option (39%). Investing in buy-to-let has been a popular option for those in later life with 24% of landlords reported to be aged 55+ in 2004 and 61% aged 55+ in 2017[18].

Changes in regulatory and government policy have made buy-to-let less accessible and attractive, specifically:

- The moves by the prudential regulator (PRA) to make income checks and stress tests more stringent for buy-to-let investors;
- The additional 3% stamp duty on additional properties introduced in 2016; and
- The restriction of mortgage interest to basic rate tax relief and other restrictions to tax relief introduced from April 2017.

CML predicted[19] that lending for buy-to-let had peaked in 2015 and was set to decline over the next two years in response to the regulatory and tax changes. This could limit the scale of borrowing for buy-to-let and limit investment options for those in later life.

Lack of suitable housing supply hampers the ability to downsize or rent

Downsizing is seen as a potential source of money by those aged 55 or above. According to Aviva research[20], 27% of those aged 55-64 and 28% of those aged 65-74 would consider downsizing to achieve a more manageable property and/or to free up money for retirement or family. Research by the Pension and Lifetime Savings Association (PLSA)[21] suggests that more than half of those not yet retired (53%) expect to use their home to fund their retirement, which implies either borrowing or downsizing.

However, the UK is reported to have a serious shortfall in housing suitable for an ageing population[22]. Housing suited to changing physical and social needs such as single storey housing or retirement housing can also be financially out of reach for many homeowners. This can hamper downsizing to a more appropriate house and lead to older households spending more on adjusting their current home to suit their needs.

"Consumers and lenders are perhaps failing to understand how difficult it is to downsize in later life… it may mean moving to another town, unsuitable accommodation, paying high service charges and costly transaction costs"

(Stakeholder Interview)

The UK private rental market, although an attractive option financially for some homeowners and a necessity for some who have over-stretched their borrowing, is also seen to have drawbacks for the retired. A lack of certainty of tenure and rent can be stressful for any renter but particularly difficult to deal with in later life.

Pensions income inadequate and policy encourages early withdrawal

- There have been substantial changes to pensions affecting older borrowers including:
- The closure of most private sector defined benefit (DB) schemes, limiting the amount that could be accrued for those at the younger end of the 55+ age group;
- The phased introduction of auto-enrolment for eligible employees into an employer's pension scheme since 2012, an initiative which came too late for many older borrowers to build up a significant pot for retirement;
- Falling annuity rates that reflect the low levels of interest rates and gilt yields;
- The introduction of pension freedoms in April 2015 enabling people to withdraw all or some of their defined contribution (DC) pension pot (up to 25% tax free on each withdrawal) and removing the effective requirement to purchase an annuity. In time, this could lead to some running out of money in later life and turning to their property asset to boost their income;
- Changes to the age at which the state pension will be received for women to age 65 and all to age 67 by 2018 leading to extended working lives for some; and
- The introduction of the triple lock on state pensions in 2010 and the single-tier state pension in April 2016, the former having improved pension incomes for many.

While most households of 55 or over have some private pension wealth (80% in WAS 2012-2014), some have chosen to regard property as a better investment to build a retirement fund. 28% consider property the safest way to save for a pension after an employer's pension, 41%[23].

Recent research by the Pensions and Lifetime Savings Association (PLSA)[24] suggests that just 45% of those aged 55-64 look likely to reach their target replacement rate of income in retirement. The remaining 55% will be looking to top up their income from other sources and for some, their property will be the most obvious choice.

Longevity and care costs change income needs

Improvements in healthcare, living standards and diet have contributed to people living longer. In the UK, for men at age 65, the average life expectancy is 18.4 years while for women aged 65 it is 20.9 years. The number of those aged 85 or over are forecast to more than double to 3.6 million and 5% of the population by mid-2039, while the number of centenarians is projected to rise nearly six fold from 14,000 at mid-2014 to 80,000 at mid-2039[25].

For many, age will mean a decline in physical and cognitive heath. Most people aged 75 and over have one or more health conditions, but 50% of them do not consider themselves to be living with a 'life limiting' long-term condition, that has a significant impact on their lives[26]. Not only will increased longevity mean that retirement incomes have to last longer but there is an increasing likelihood that funding health issues and care needs means incomes will also have to cover a wider range of, and more expensive, outgoings than ever.

Intergenerational differences create pressure to pass on wealth

Concerns about the actual and perceived imbalances between the finances of different generations are increasingly being expressed[27] as younger generations are faced with high levels of student debt, find it increasingly difficult to get on the housing ladder, experience more uncertainly over their working lives and receive less support from the welfare state.

In some instances, older people are helping the younger generation get on the housing ladder through the support of 'the bank of mum and dad' (or grandparent). Legal and General estimated that family and friends support would be involved in 25% of all mortgage transactions in 2016, spending £5 billion to support the purchase of £77 billion worth of property.

The consumer research conducted for this project found a number of instances where borrowing was being stimulated by the desire, or sometimes pressure, to help the younger generation; typically to get onto the property ladder.

Extended working lives delay need to repay mortgages

Life once comprised of clearly defined stages such as education, work and retirement. The boundaries between these have been blurring for years through continuing education at work; diverse working lives with potentially multiple employers with the end of a job for life; the removal of the default retirement age in the workplace in 2011 and the gradual shift into retirement though phased retirement/semi-retirement. LV='s 2016 research[28] found that one in seven (14%) people approaching retirement are opting for semi-retirement and they are gradually reducing their hours, rather than retiring straight from full time work.

Working lives are also extending as the age for receipt of the State Pension rises (to age 67 between 2026 and 2028 for both men and women) and the numbers aged over 65 in employment continue to rise. In October 2014, DWP (Department for Work and Pensions) reported that one million people aged over 65 were working and the latest figures on the UK labour market in 2017[29] show a slight increase to 1.2 million among this age group.

As people are living longer and staying healthy for longer the opportunity to continue working, even part-time is attractive to many with research finding that the majority (87%) of those working at retirement age do so because they want to[30]. Increasingly people are expecting to work for longer, either through choice or necessity. 43% of those aged 55-64 expect to earn an income from a job when they retire[31] while Aviva's 2016 Working Lives[32] report found that 15% of those aged 50 and above expect to retire when they are 70 years or older. Aviva's report found that lack of sufficient savings in pensions (46%), the amount available from their State Pension (32%) and outstanding debts, including a mortgage (24%) were the key reasons why people said they would work longer.

Working longer enables people to borrow into later life, although employment prospects may become increasingly uncertain if health deteriorates.

Divorce among older households increases borrowing needs

In the UK, the average age of divorcing couples has been rising since 1970[33], although overall, the divorce rate has been falling since 2004 (in part due to fewer marriages). The divorce rate among women aged 55 and over is bucking this trend and continues to rise. Divorce can be an important trigger for borrowing as household resources have to be split and household incomes for each partner fall. Research for the BSA[34] found that those borrowing in retirement were three times as likely to be divorced than those not borrowing in retirement.

Many older households finding debt a problem

For some debt is a burden. Data from WAS reveals that the burden of debt peaks between the age of 35 and 44. However, a significant proportion of those with debt who are aged 55 and over find their debt a burden. In 2012-2014, almost half of those aged 55 or over said they found their debt somewhat of a burden/a heavy burden. Moreover, almost one third find their mortgage debt to be a burden .

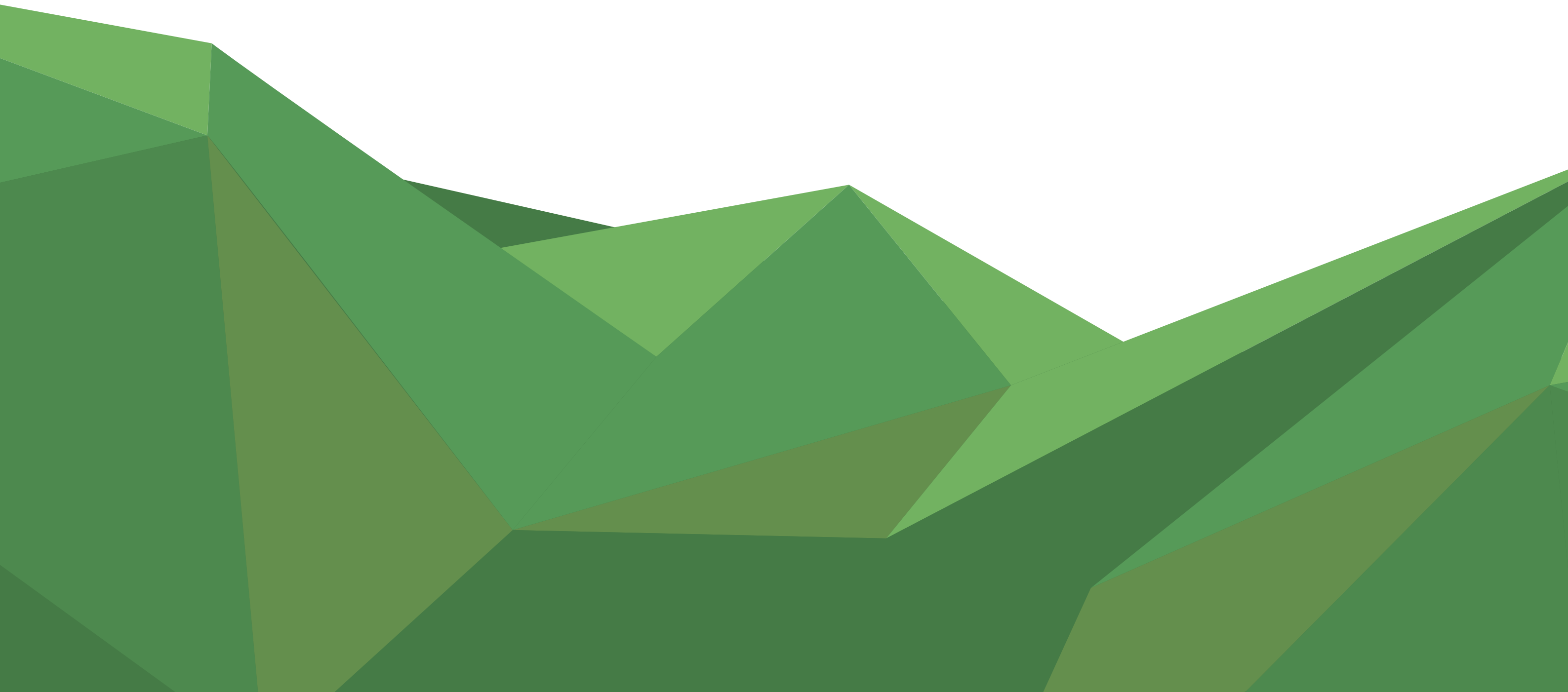
Some reports suggest that this fall is due to some over 55s using small pension pots to replace short-term borrowing[36].

People increasingly expect to enter their pre-retirement and retirement years with debt. Prudential research found that more than one in six expected to take seven years or more to pay off their debts, and one in every 14 feared they would never clear the money they owed[37].Prudential's 'Class of 2017' research found that one in four people planning to retire this year will still have a mortgage or other debts to pay off and will typically owe about £24,000.

Demand for later life borrowing is expected to increase, in particular equity release borrowing[38]. More2Life's research[39] shows 17% of over-65s expect to borrow or have already borrowed in retirement. Aviva[40] research suggests that over 2 million households aged 45 and above expect to need to borrow in retirement with the incidence higher among younger households.

Initial findings from the Pension and Lifetime Savings Association's research[41] on property in retirement found that an estimated 2 million of the UK population (17% of retired people) used property to finance retirement. Of these, 19% felt they no choice but to use their property to finance their retirement. However, 40% of the 2 million expected to use the money for luxury or non-essential expenditure.

Chapter 4: Attitudes, needs and behaviour: a new mindset?



Attitudes, needs and behaviour: a new mindset?

Drawing upon desk research and depth interviews with consumers and consumer bodies, in this chapter we examine whether the attitudes of later life borrowers to products, lenders and advice are changing and how their borrowing needs are fulfilled today.

Today's cohorts approaching and in retirement face a dilemma. On the one hand, they are reluctant to relinquish control of their equity and, particularly at this stage of their lives, are cautious, risk-avoiders. On the other, they are not prepared to live a life of poverty simply to retain and pass on its value.

Not all later life borrowers have the same product or advice needs. Research for this project and other data suggests that at one end of the spectrum, there is a group of borrowers who have over-stretched their borrowing, while at the other are those who are generally managing well in retirement but are looking for a little more luxury. In the middle are perhaps the majority; those who have reached retirement without all of the finances they hoped and need to continue to borrow in one form or another.

Whichever segment people find themselves in, this research suggests that borrowing in later life is proving challenging for many. Our respondents entered the market with a poor understanding of their own goals, what products are available to fulfil those goals, what criteria they have to meet to borrow and where to go for help and advice. When searching for help, they naturally resort to high street lenders who are sometimes unable to help due to lending criteria or affordability measures. They then struggle to know where to go. Most respondents had little experience of using advisers and were averse to seeking out advice from unknown organisations. Finding information and guidance that bridges residential and lifetime mortgages proved impossible, although it is what most would have liked.

4.1 New mind-set emerging but emotions still drives behaviour

A new paradigm?

In her book 'Home Equity and Ageing Owners', Lorna Fox O'Mahony[42] describes the normalisation of the release of equity from property in later life and the emergence of a new housing paradigm which she describes as 'home as investment-asset-to-spend'. This is contrasted with previous successive paradigms that are described as 'housing as home' and 'housing as inheritance'. Property is seen to be more 'spendable' today than before.

It is suggested that today's retirees have greater expectations of their retirement and lifestyle as well as bearing more of the responsibility for their retirement welfare. This view appears to be borne out by research which shows that the typical retired household increased their annual expenditure on fun (for example, entertainment, restaurants and cultural pursuits) by 56% over 2005 to 2015[43].

Attitudes regarding the home as potential bequests appear to be changing. A study for the Joseph Rowntree Foundation (JRF) found that most older people are willing to use their assets to meet needs in later life[44]. A study for the Social Market Foundation found that 69% of over 65 year olds agreed with the statement "It is better to give children money when they need it than to save it to leave as an inheritance"[45].

Today's over 55s proud to be trailblazers and home owners

Consumer research conducted among older borrowers for this project suggests however that the underlying attitudes to home ownership and the wealth that it brings are more complex. While a new mind-set is beginning to be evident among older borrowers, those who have become home owners retain a strong emotional attachment to their home and the security and status that it represents. Home ownership remains for many older pensioners a symbol of achievement[46].

While some consider downsizing and some do downsize, social and family connections were important considerations.

"Keeping the house is everything for us, we're near the grandchildren, our friends are here, and it's a nice area"

(Consumer Interview)

Among borrowers, there is however recognition that property ownership is no longer just about accumulating an asset during working life. When necessary, but somewhat reluctantly, it is also about extracting value from the equity in the home during retirement. For some, the idea of paying off their mortgage fully and never borrowing again is vanishing.

"It's a crazy amount of money (tied up in the property) and if we don't want to move, we'll never need that, so we may as well use it"

(Consumer Interview)

However, today's cohorts approaching and in retirement are proud that they have been part of the 'trailblazer' generation who were in the vanguard of wider home ownership and lucky to have gained from a period of rapid house price inflation. Many are first or second generation homeowners. Their home remains a place of safety and protection and says something to others about their status.

"everybody buys property, you feel you want to own your own property"

(Consumer Interview)

Relinquishing control of their equity remains a difficult step though and, particularly at this stage of their lives, they are generally cautious, risk-avoiders. They see many financial products, especially non-mainstream ones, as risky.

However, they recognise that they have significant amounts of equity and some were beginning to mentally divide up the equity between money they could spend themselves and money they could leave to the next generation. However, they are not prepared to live a life of poverty simply to retain and pass on its value.

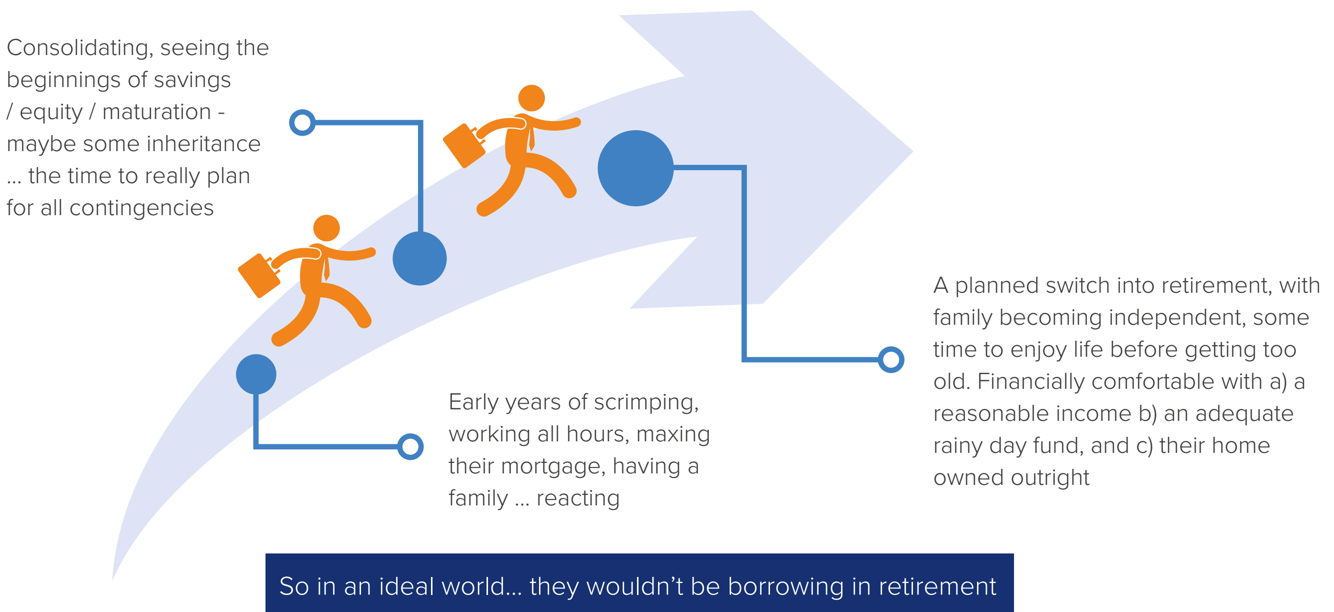
"We've had to struggle, why should we live a pauper's life for your children. They're comfortable, they have good jobs"

(Consumer Interview)

We didn't plan to borrow in later life!

Borrowing is not where they expected to be: they expected a pathway to retirement that would give them a reasonable income, an adequate rainy day fund, and their home owned outright (as illustrated in Figure 9 below.

Figure 9:
The journey towards a comfortable retirement



However, some are finding that, for various reasons (life events, work, health, family, lack of planning), they haven't achieved that position. In particular, they are not reaching retirement with all three boxes ticked. They may not have a reasonable retirement income, they may have inadequate rainy day savings and/or they may not own their home outright.

In particular, the transition into retirement may not have been as straightforward as they expected. For some it has been about a failure to plan – putting off difficult decisions until it is too late. For this group, suddenly arriving at retirement has been a shock; several people interviewed described finding themselves in a time warp and suddenly horrified to find themselves at age 60 and retiring.

Case study 1

Peter had his own business which failed after his partner defrauded him, was later made redundant and making a living from contract work. He lost and was missold pensions, has an interest-only mortgage and hates advisers. He barely affords living/repayments, has £80k equity, some debts (£30k) & £6k in ISAs. He was horrified waking up on his 60th birthday.

For others, life events have taken their toll. Divorce or separation, sudden health or work shocks led to borrowing being extended and increased to cover changes in income. Several respondents referred to misselling events (or poor decisions) which had they believed had left them out of pocket at retirement (endowment and pension misselling were the most commonly mentioned). These events had also changed their attitude towards financial products in general.

Case study 2

Harry had been made redundant and had decided to take the lump sum and start his own business. Over 2 years he borrowed on credit cards and switched to interest-only to cope. Finally he folded the business, got a job and is looking at converting to equity release.

Others were struggling with low interest rates on their savings or poor investment returns. Some had already dipped into their pensions, in particular the tax-free element, and were finding it disappearing faster than expected.

The luckier few found themselves in a position where they had enough for themselves but felt that they could help out their children by borrowing.

For some, borrowing was a positive decision and a way of 'treating yourself or family'. However, for many in this research, borrowing in retirement was not viewed positively; for some it was a dark secret that they would not share with friends. This lack of information sharing has important consequences for how others find out about the market and the products and advice available.

4.2 Consumer borrowing and advice needs vary by segment

The desk research and stakeholder interviews conducted for this project suggested that the market of later life borrowers could be divided into five broad segments (Figure 10), driven largely by the extent to which borrowing is necessary or a luxury.

Figure 10:
Later life borrowing segmentation

At one end of the spectrum, there is a group of borrowers who have over-stretched their borrowing, have an inadequate income to sustain a residential mortgage and sometimes insufficient equity to make a lifetime mortgage feasible. At the other end of the spectrum are those who are generally managing well in retirement but are looking for a little more luxury or are using their property equity as a form of tax planning. In the middle are those who have reached retirement without all of the finances they hoped and need to continue to borrow in one form or another.

The 'overstretched' – multiple debts and few options.

For those with little equity or high levels of other debts going into or in retirement, the outlook was grim, as they acknowledged. However, the pressure to keep their home was tremendous and they resisted selling up for as long as they could. For this group, the greatest need they have is to speak to an organisation that can help them with difficult decisions that may include selling their home and moving into rental accommodation and claiming benefits. For some with adequate equity, a lifetime mortgage may help them stay in their home.

Case study 3

Couple took out endowment mortgage and were "terrified" when they found out the extent of the shortfall. A friend's adviser moved them to an interest only mortgage but they are now in significant arrears. They are now facing a lifetime mortgage as a "last straw".

"Things got so bad we had to declare ourselves bankrupt and move out … Looking back I wish we'd had the confidence to go and see a financial adviser and not just the bank, maybe there was a way we could have kept the house and dealt with the debt"

(Consumer Interview)

Stakeholder interviews with consumer bodies and debt agencies confirmed that they deal regularly with cases such as this and that borrowers tend to leave approaching them for help until quite late in the process of trying to find a solution.

"It's almost certainly the case that more and more people are reaching later life unable to repay their mortgage and with unsecured debt."

(Consumer Interview)

The 'extended' – difficult decisions delayed

This group includes individuals who have extended their mortgages into retirement, perhaps on an interest-only basis and perhaps have other debts that need repaying. Working longer, if they can, is almost certainly part of the solution but ultimately they may face the transition to a lifetime mortgage or downsizing.

Case study 4

Hugh is single, without children, and has been working on a contract basis for the past 20 years. Ill health forced him out of the workplace for over a year and he accumulated debts during this period. He's been on an interest-only mortgage for some time, and remortgaged with his existing lender recently to release funds to renovate his flat and to extend the repayment period until he is 70, when he plans to downsize out of the city.

Research by Key Retirement suggests that 31% of those using lifetime mortgages repaid non-mortgage debt, primarily credit card debt and more than 20% are repaying mortgages, including maturing interest-only mortgages[47].

This group feel that they have failed and can be both scared and embarrassed to be in the position they are. Some also feel let down by the financial services industry who they blame, at least in part, for their current circumstances.

Getting help at an early stage so that they can plan the next stage is important. Some may find a way to repay their mortgages but, for some, getting help and advice to transition from a residential to a lifetime mortgage is the most important step.

The 'adjusting' – life changes require funding

Advisers operating in the retirement borrowing market suggest that most lifetime mortgage borrowing that they currently see falls into this segment. Research by Key Retirement indicates that 63% of those using equity release products in 2016 did so for home and/or garden improvements or adaptations in response to care needs.

This group may find themselves needing to borrow because:

- They (and/ or their partners) have made some poor financial decisions during their working lives and have insufficient savings to cover this type of expenditure; or

- They find themselves with quite major expenditure required to protect the value of their home (e.g. major repairs); or

- They find themselves with health problems that require them to adapt their home to new needs.

Case study 5

Sara has a house worth £1.2m with no mortgage. She has sizeable investments but 10 years of drawdown and low interest rates mean her 'rainy day fund' is too low. She wants to release equity for home renovation.

Some of this group may also need to supplement their day-to-day income in order to help paying the bills.

For this group, finding good quality advice on how best to release equity is critical. For some a short term residential mortgage may be appropriate while for many a lifetime mortgage will be appropriate. However, these consumers, like those in other segments, often enter the market with minimal knowledge of the options open to them and have no or limited reference points, other than TV advertising and direct mailings on equity release, about where to start looking.

The 'topping up' – looking to enjoy life a little more

This group are generally more comfortable than the previous groups. They have enough to live on day-to-day but need either to top-up their incomes for a more comfortable life or need a lump sum for treats or to help the family. With help, some may decide that they can repay all or some of the interest on a mortgage, while others may need the option of a lifetime mortgage with roll-up of interest.

Key retirement data suggests that 29% of those taking out lifetime mortgages use the funds for holidays while 20% use the funds to help family.

Case study 6

Sally and Dan (75) have less than a year on their mortgage. Their children are successful and are putting pressure on them to release equity to boost their income. Couple are resisting it until they can find an adviser they trust – but admit they're too proud to do it.

This group, along with the 'adjusting' re-enter the mortgage market expecting that they will be considered good risks and that they will be able to borrow on good terms. However, the journey that they experience does not always live up to their expectations.

Case study 7

Jeff owns his house outright and has decided to borrow against his home to help his middle son on to the property ladder rather than paying rent. He made an appointment with the mortgage company who have agreed in principle that he can have the funds requested. They have agreed that it will be repaid over a shorter period than they were willing to allow him to repay.

4.3 A fragmented and complex journey

The experience of borrowing is not easy

Whichever segment our research respondents found themselves in, borrowing in later life was proving to be challenging. They entered the market (either looking to extend or renew their mortgage or starting to borrow again) with a poor understanding of their own goals, what products are available to fulfil those goals, what criteria they have to meet to borrow and where to go for help and advice. Few understood fully the differences between a residential mortgage and a lifetime mortgage. Many had not dealt with a mortgage application for many years. Few knew where to turn for information and help.

Poorly defined needs at the start of the journey

The first step in the journey for most was the realisation of a vague and poorly defined need (Figure 11). Consumers interviewed were on a spectrum from having been aware for some time they were struggling to afford their home to those who were suddenly surprised by redundancy, illness, divorce etc. or those looking to supplement their income or raise funds for other purposes. For some the start of the journey is urgent (or should be urgent but is put off) whereas for some, this stage can take some time: months or even years. Those unsure of their needs can struggle to get help.

Residential mortgages are more familiar than equity release and so consumers often begin their search wanting a traditional mortgage with flexibility on how much they repay, when they repay and how they choose to repay. Only if they are sure that they don't want to repay the loan in their lifetime and they want some of the guarantees that come with a lifetime mortgage do they turn to that product group. For this latter group, their journey is simpler and they turn to the specialist advisers who advertise.

"I knew I didn't have the income to pay the monthly payments so I didn't bother asking about that [residential mortgage]. It was a choice between keeping the (interest-only mortgage) I had and not being able to afford dog-food or the ones I'd seen advertised on the telly (equity release)… They sent the information and I called up for an appointment… I went ahead with it because it was what I needed… Yes, I'm happy with it"

(Consumer Interview)

However, for those who don't know what they need, the first port of call is the high street lender, typically the largest banks and building societies, a view reiterated by a number of stakeholders interviewed for this project. They start the process with high expectations. After all, they have a long history of being good customers, meeting their commitments and building up equity in their home.

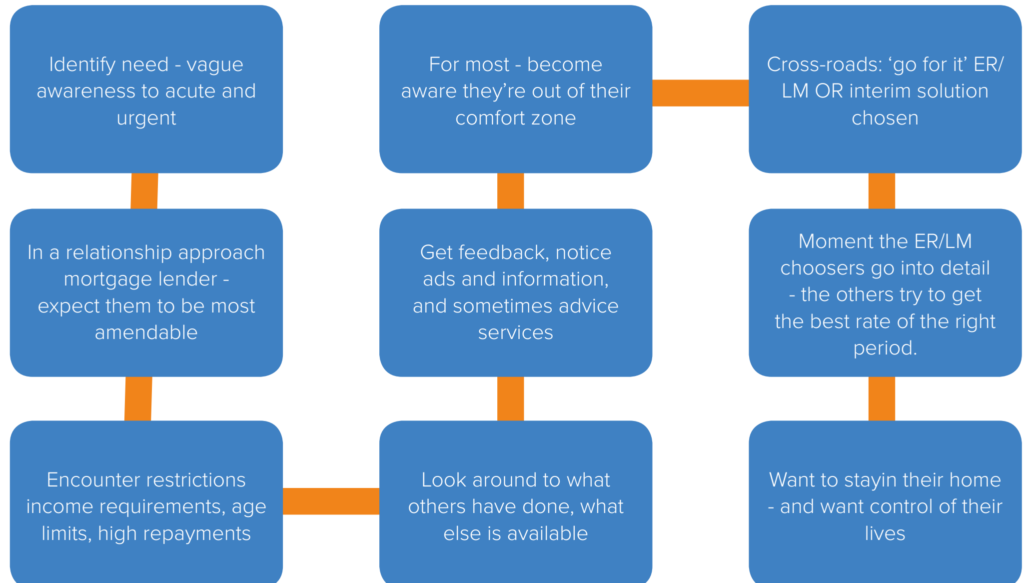
"Financial things are all set up for young people… They need to recognise that we've built up equity in the property and reward us with a lower interest rate for that, not punish us with such a high rate"

(Consumer Interview)

They know they are not 'typical' customers - the sort they think that lenders prefer: young people with high incomes and a long time to pay their mortgage. So, in order to make their case as strongly as possible, they go to someone who knows them and their payment record, and is a mainstream, "normal" lender. They believe that in doing so they will avoid being pushed into a loan/ product that's "risky" and that they are unlikely to charge them high fees.

If the lender is willing to extend their borrowing or offer them a new loan, most respondents would accept the offer without making any other enquiries. Few shopped around for a better or more appropriate offer (behaviour that is supported by the relatively low use of mortgage brokers by this age group).

Figure 11:
Consumer journey (drawn from CML consumer research)



For a few, their first attempt to borrow is successful

Some respondents found that they met the criteria set down by the lenders or they happened across a local building society with a more flexible approach to later life lending. Among those who had taken out another residential mortgage, particularly interest-only, there often remained uncertainty about whether and when they will be able to repay the mortgage without selling their house or whether they will be able to renew / extend when the term comes to an end. For those on a repayment mortgage, some are concerned about their ability to continue to afford repayments as they age.

Rejection comes as a shock

For some of our respondents, their first experience of not being a welcome customer is when they find that they do not meet the criteria for lending adopted by the high street lenders.

However, for respondents who did not meet the criteria, their experience was quite different from their expectations and came as a shock. They encountered barriers and restrictions to getting mainstream mortgages that they feel are unfair. They are left feeling rejected and not knowing where to turn next.

"It's like starting again, like back to nothing. You just need extra money and they send you back to the beginning."

(Consumer Interview)

A sense of panic, or a desire to simply ignore the problem for as long as they can, may then set in. They become aware that they are out of their comfort zone and have some difficult decisions. Staying in their home and location is a priority for many. Selling up, moving to another location, having to form a new network of friends is viewed as a stressful and expensive option that may not realise the funds they need. Renting is rejected as a long term option by respondents who are first or second generation of home owners. Renting is considered to be high risk due to the uncertainty of tenure and rents

Unlikely to seek out a broker or adviser

Respondents were unlikely to be referred or signposted to others that will lend and are unlikely to know a broker or adviser that can help. This left them struggling to know where to turn for help. The only readily accessible source of information and advice on borrowing in later life for many respondents were the adverts and mailings they see about equity release.

Ultimately this can lead people back to the idea of equity release but it is not a comfortable place to land for some. However, faced with what they describe as two unattractive options (renting or equity release) the latter can seem preferable as it allows people to stay in their own home.

“Lots of people my age are equity rich, cash poor which is why we’re looking at equity release, but you have to be so so careful...”

(Consumer Interview)

TV advertising and mailings become main source of information

If equity release becomes the route to take, people tend to contact one of the firms that advertise on TV. It was clear in this research that those who had done so struggled to differentiate between lenders and advisers. Respondents described approaching someone from whom they could borrow money whereas in reality they almost certainly approached one of the two most promoted advisers in the market.

They tend to act very quickly and without reference to others – they are tired of the warnings from friends/ family who are not in the same position. Understanding and recall of the product is typically sketchy even where purchased recently. However, the process is appreciated, particularly where they are encouraged to take their time to understand the benefits and risks.

If consumers don’t pursue equity release and there is no referral at this point then the evidence from this research is that consumers will struggle to source appropriate and helpful advice, and to find out enough about products on the market which are options for them. It then becomes a ‘game’ of finding another mainstream lender or “having” to go the ER route and hoping for the best. Few of this group have experience of or know others with experience of mortgage brokers and so do not tend to use this route.

Some may happen across another lender who can help with a residential mortgage but it tends to be more luck than a structured search.

For those who have no urgent need to borrow, this can be the end of the journey. Others begin to sound out others on their experience and begin to do some of their own research, more often than not turning to the possibility of some form of equity release.

Discrete enquiries and discussions with trusted friends, sound out family

Among our respondents, research about equity release often began with discrete enquiries among friends and family. However, their experience tended to be that, where they did raise it, then reactions were generally negative: stories of friends' mothers who lost everything, shock at them leaving nothing to their children, disapproval of a product which means they don't own their own home etc. Many didn't find or ask others who've been through the process – which makes them suspicious and guilty that no-one else has done it. There is no obvious place to go for information, guidance and advice - awareness of sites like the Money Advice Service appeared to be very low. Martin Lewis' MoneySavingExpert site was considered the most obvious source of information but respondents found it quite limited on the subject. Respondents generally did not clearly differentiate generic information and guidance from formal advice.

Memories of misselling are long

Respondents approach borrowing in later life having experienced, first-hand, or knowing others who have experienced, or believe that they have experienced, misselling of financial products. As a result many are sceptical about the financial services industry, in particular advisers. They seek to avoid anything that they either don't understand, that has a poor reputation or that requires them to engage with parts of the market with which they are unfamiliar.

For most consumers interviewed for this project, perceptions of the equity release market (or at least the expression equity release) has been significantly coloured by what they feel to be past misselling. This is in spite of many years of work to improve the products and sales process and low levels of complaints. Rumours, anecdotal tales and misinformation can circulate for decades.

"If the bank won't extend the mortgage then I'll have to look at equity release. … No, I don't want to go that route, you kind of think oh it's not that bad... Yet!"

(Consumer Interview)

"Equity release ... it's a last resort. I'm too old for a loan so all I get is equity? I'm scared of it, it gets bad publicity"

(Consumer Interview)

These views are also evident in earlier research around later life borrowing. Quantitative research by Just Retirement in 2012[48] found that attitudes towards equity release were more unfavourable than favourable among older consumers. Specific reasons for rejecting equity release included a mistrust of companies offering the service, perceptions of poor value and knowledge of others with a bad experience. Other research by the Joseph Rowntree Foundation (JRF)[49] also found that 'the perception of equity release as risky and poor value is widely held, and the extensive consumer protection now provided is little known'. The views were also expressed by some of the stakeholders interviewed for this project.

"In relation to equity release, there is still a lot of consumer fear that is not being dispelled after all these years"

(Stakeholder Interview)

However, there are signs of change

Some then go on to actively research products using the internet and other media. For some advertising of lifetime mortgages is helping to overcome the lack of familiarity and the historic reputation of equity release. What is lacking for some is any significant sharing of peer group experience. Friends and family do not generally share what they may see as the 'shame' of having to borrow against their property in later life. What they do share is a fear of finding themselves in another misselling scandal.

"(Friends) don't understand that I've done it, but I'm happy with it. I'm happy with the kitchen and the other stuff I've done, … it paid off my mortgage and if I need anything else done (worried about the roof) then there's still some left"

(Consumer Interview)

For some, the advertising of lifetime mortgages and the rebranding of equity release works. They start the process knowing what they want and how to go about getting it.

Even when respondents became aware that a lifetime mortgage might work for them, they often do not do enough research into the product detail to pick up on key elements of modern products design that might reassure them, for example:

- That you still own your home;
- That you will not owe more than the value of your home

Or that products offer the predictability of fixed interest rates or that, with some products, you can pay back some or all of the interest early or even pay back the loan with no penalties in some circumstances or move house or downsize.

Once lifetime mortgage decided upon, people act quickly

Once respondents had decided on a lifetime mortgage, they tended to act very quickly and without reference to others. They became tired of the advice from friends/ family who are not in the same position as them. While all of those going through the process must have been using an adviser, many talked about the lifetime mortgage lender being the company they were dealing with. Few were familiar with the names of the firms but all referred to firms that advertise on TV and/or send them mailings. Confusion between adviser and lender seemed common.

Their recall of the product details tended to be sketchy at best unless there was a crucial element of the product to them (e.g. having some guaranteed equity to leave to their children). They tended to use the solicitors the adviser or lender listed – this was seen to be easy, quick and have transparent pricing.

The process of buying a lifetime mortgage was described as comfortable. Some respondents wanted to emphasise that during the purchase process they did not feel hurried or pushed at any point. This gave them reassurance.

4.4 Consumer experiences not always satisfactory

None of the respondents to this research were entirely comfortable with their experience and some were dissatisfied with the outcome. It is important to note that we did not assess outcomes in full as part of the research. However, feelings can be summed up as ‘frustrated, worrying, disappointing’ and ‘too many surprises’.

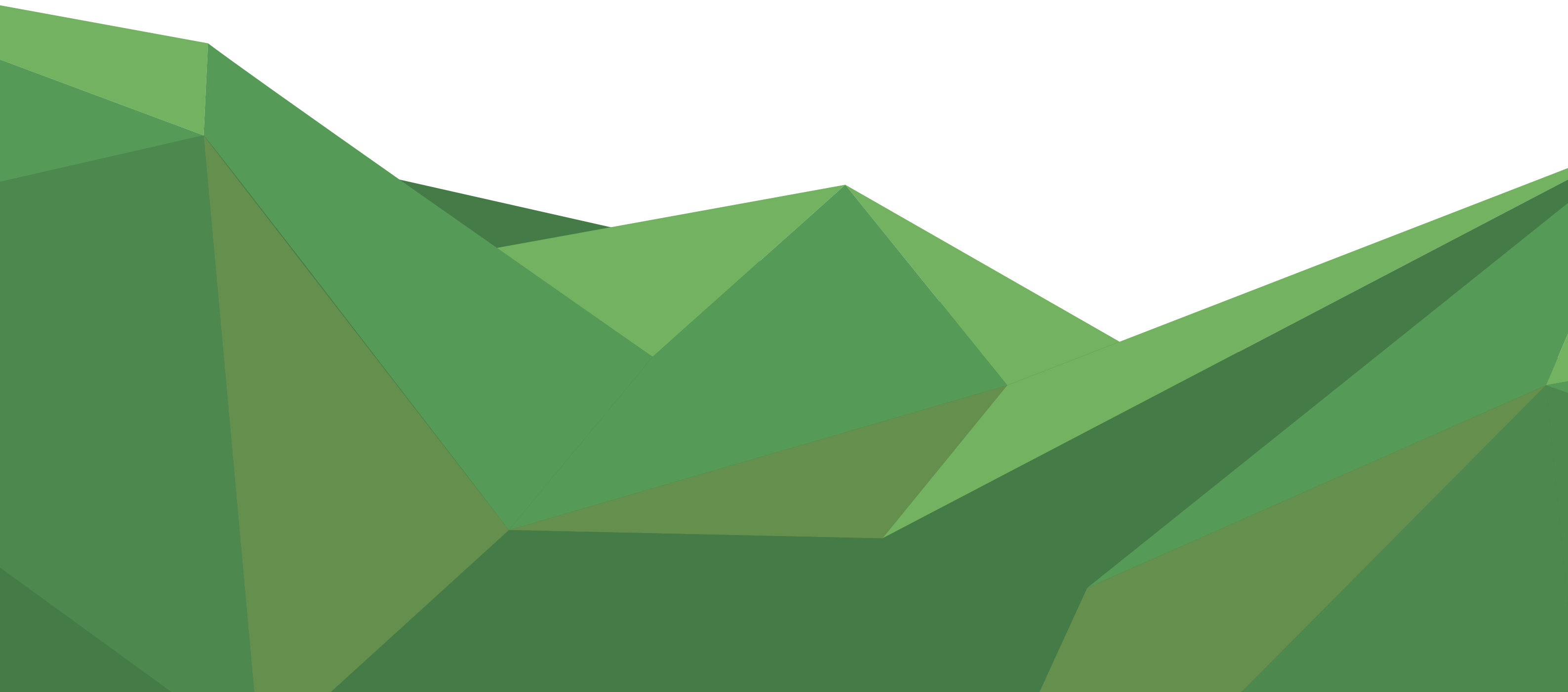
Among those borrowing through a residential mortgage into much later life, there remained some uncertainty about what would happen to them over the term of the mortgage and what would happen at the end of the term. Among those unsuccessful at renegotiating a residential mortgage that point in time was looming large.

Feelings among those who had taken the equity release / lifetime mortgage route were not straightforward. They don’t actively regret their decision: it had allowed them to stay in their home, and thus keep control of their lives (vs renting). However, no matter how logical and rational they feel their decision has been in theory, on an emotional level they wish they hadn’t had to go down this route. In particular, they wish that there had been a solution whose past history didn’t make them uneasy. Concerns about misselling left them feel ashamed and embarrassed to confess to friends that they had used equity release, thereby reinforcing the poor reputation.

“He (adviser) was selling us this equity release and we worried about it because we don’t know anyone else who’s got one of those … or no-one admits they’ve got one of those”

(Consumer Interview)

Chapter 5:
The current advice framework: old silos



The current advice framework: old silos

In this section of the report, we explore how the current market, in particular the advice framework, is responding to consumer demand and consider whether and how its structure and operation might help or hinder good outcomes for older borrowers.

The market is described by stakeholders themselves as consisting of two distinct silos: residential mortgage lending and advice and lifetime mortgage lending and advice. The silos are separated by different funding mechanisms, risks and lending institutions as well as different distribution systems and regulatory environments. The key consequence of this separation is that what, for older consumers is perceived to be a single market that should serve all their mortgage needs (whether residential or lifetime), operates as two separate market with very limited bridging between the two.

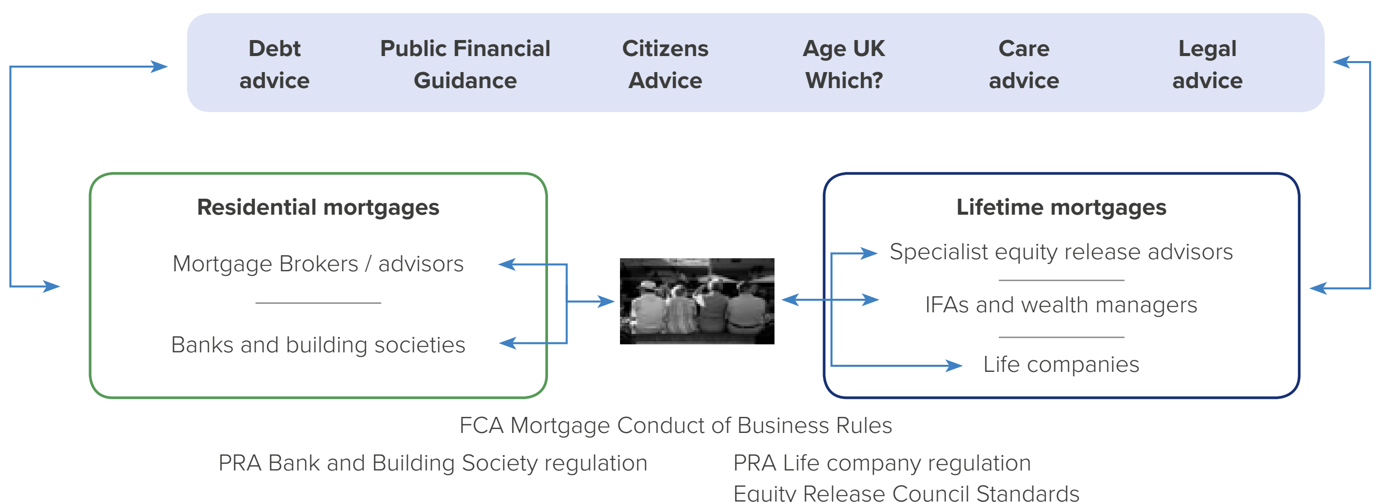
5.1 Two market silos shaped by business models, brands and regulation

The current advice framework for those seeking to borrow against their property in later life operates in two distinct silos (Figure 12).

- Lenders, mainly banks and building societies, provide residential mortgages and distribute their products through their own branch networks and websites as well as national and local mortgage brokers;

- Lenders, mainly life companies, provide lifetime mortgages and distribute their products through specialist equity release advisers and some independent financial advisers.

Figure 12:
The advice framework for older borrowers



The two market silos have a number of important differences:

- **Different products:** Residential mortgages are defined by the need for repayment of the loan on a particular date and regular payments of interest or interest and capital. Lifetime mortgages are defined typically by not having a fixed repayment date and by the ability not to repay interest or capital during the life of the loan but rather on death (or other permitted trigger events). Lifetime mortgage interest rates are typically higher than residential mortgages, in part due to the other differences outlined below.

- **Different funding models:** The funding model for lifetime mortgages is different to residential lenders: the former typically matching lending to the payment of annuities to the retired, while the latter typically matching lending to short and medium term savings.

- **Different risks:** Residential mortgage lenders are concerned principally about credit risk whereas lifetime mortgage lenders are concerned more about longevity risks. Both parts of the market are concerned with the long term conduct and reputational risks involved in dealing with ageing and potentially vulnerable customers.

- **Different lenders:** Largely because of the different funding models, different brands and types of organisation provide lending in the two markets. Banks and building societies are dominant in the residential mortgage sector while life companies dominate in the lifetime mortgage market.

- **Different advisers:** The residential mortgage market is largely served by intermediaries who operate as mortgage brokers and advisers. The lifetime mortgage market is largely served by intermediaries who operate as specialist equity release advisers. Very few intermediaries operate across the two markets.

- **Different remuneration:** While advisers in both parts of the market are paid, at least in part, by the lenders, the procurement fees for the two types of mortgage are very different in scale. Residential fees are typically around 0.3%-0.5% while lifetime mortgage fees are often in excess of 2% (sometimes with a decency cap on the total amount of fee).

- **Different regulation:** The two different types of lenders are subject to very different prudential regulation and the sale of lifetime mortgages is subject to different and supplementary conduct regulation compared to residential mortgages.

This seems to emphasise differences between the markets whereas customers' needs and preferences suggest that the markets should be considered to be one.

Markets supported by range of other guidance and advice services

In addition to regulated advice, there is a further range of guidance that is available to borrowers to explore their needs and how the market might address them. These include:

- Debt advice for those struggling with their mortgage payments, such as from StepChange who offer advice on both residential and lifetime mortgages;
- More general financial advice, typically unregulated, on a wider range of topics and issues including:
    - Central government funded generic advice services such as the Money Advice Service (MAS), Pension Wise and the Pensions Advisory Service (TPAS). All three are due to be replaced by a single public financial guidance body (SFGB) that will bring together debt advice and money and pensions guidance in one place.
    - Consumer advocate bodies and charities who operate money helplines and clinics, such as Citizens Advice, Age UK and Which? (the latter also operate as a mortgage broker)
- Local authority care advice services, who will advise on funding care using deferred payments schemes but often also will give more general guidance on using housing wealth and
- Legal advice, a necessary component of the advice framework for lifetime mortgages and which may also provide advice on how housing wealth may be used and protected when addressing later life events and planning bequests.

No single source of guidance and advice on the range of issues related to borrowing in later life

There is little provision of guidance or advice that covers all of the potential borrowing needs of those in later life. For borrowers who may need to move between the two market silos or who may wish to consider the advantages and disadvantages of each market before deciding on the right product for them, there is no single obvious place to go and no joined up framework.

5.2 Residential mortgage lenders constrained in lending to older borrowers

As well as operating as a separate market silo to the lifetime mortgage market, the residential mortgage market also operates in two distinct segments when it comes to lending to older borrowers.

- The larger lenders tend to operate a business model that effectively can limit the extent to which they can lend to many without a regular and sustainable income from employment or certain types of pension.

- The smaller lenders, mainly the small building societies, can adopt a more tailored approach and can flex their offering to suit older borrowers but can be constrained by prudential regulation in how much they can lend to older borrowers.

At present, none of the residential mortgage lenders operates in the lifetime mortgage market, although one has started to pass on referrals to a lifetime mortgage adviser, albeit under limited circumstances for interest-only customers.

Larger lenders constrained by their business models and risk appetite

The larger high street banks and the larger national or multi-regional building societies are front of mind as an obvious port of call for later life borrowers.

These lenders have the scale to raise the finance, invest in systems and market their products so as to provide the keenest rates for standardised products. In the current low interest rate market, short-term fixed rate deals are the most commonly marketed and the scale providers compete to provide these to prime borrowers. Their procedures are designed to accept and process these with the minimum of manual intervention and so set a rigid frame of parameters that mark out their risk appetite on an ‘accept or decline’ basis. These are essential to minimise the costs of acquisition in the low interest rate/low margin mass market.

“We are a mass market lender and so cases don’t get viewed individually but we use pre-qualification criteria to filter people out.”

(Stakeholder Interview)

The larger lenders have moved some way into the later life borrowing market and have extended their age limits to 75 or 80 but will typically require clear proof of sustainable retirement income to lend into retirement and will assess affordability against this. Given the fine margins and high throughput required to make their business model pay, the larger lenders are not currently best suited to dealing with non-standard cases. Underwriting is done at the portfolio rather than the individual level and pricing is by product, so the rate will not normally vary in response to the risk presented by an individual borrower.

The risks of lending to older borrowers are mentioned as one of the factors inhibiting lending. Lenders have concerns about the longer term conduct risk issues of dealing with customers who may become vulnerable or unable to deal with their finances.

"You can't really de-risk lending to older borrowers but you can understand the risks better"

(Stakeholder Interview)

Market not yet big enough to convince some larger lenders to invest

Although there are signs of growth in demand for later life borrowing, with the over-55 market representing less than 10% of the total, on the whole, larger lenders appear to be undecided whether to make the significant investment to develop systems and products specifically for this market.

"The bigger lenders will wake up to the lending into retirement market and may use their scale to create hybrid products - perhaps part residential/part lifetime"

(Stakeholder Interview)

In the meantime, they are adapting their existing systems to stretch to cover as much as possible within their overall risk tolerance. While a small number of larger lenders have developed, or are developing, a specific proposition for the older borrowers, their lending is still constrained by either their business model or their attitude to lending to older consumers and the associated risks. These moves are viewed as cautious by other lenders and intermediaries and the lenders involved are concerned not to be seen to be engaged in irresponsible lending.

"We haven't actively promoted our borrowing in retirement product. We're putting our toe in the water and see what happens – we don't want a flood of business ... [but] less is getting through than we thought [due to stringent conditions]. So it's too early to judge how business is doing."

(Stakeholder Interview)

Almost all of the organisations interviewed for this study expected business models to change but for it to take some time.

Older borrowers may find that their historic lender or the lender that is local to them is not well positioned to lend and may need to shop around for an appropriate residential or lifetime mortgage. While used to shopping around for other goods, this group of customers are not generally familiar with mortgage brokers or financial advisers who may be able to help them or haven't taken out a mortgage for many years.

Smaller lenders better suited to serve older borrowers but constrained by regulation, scale and accessibility

Smaller residential lenders include the mid-sized regional and small local building societies, the challenger banks and other smaller loan companies. They do not have the financial, operational or marketing resources to compete on rates with the scale providers. They rather seek out business through being able to be more flexible and innovative in their product design and underwriting, offering loans to borrowers who may not fit well with the scale players risk parameters. They tend to have the systems and expertise to underwrite risks based on individual circumstance. They are much more likely to look at shared ownership, guarantors, income from children, income from self-employment or contract work as well as the wider context of pensions, savings and investments when considering whether to lend.

"The Building Societies are great, especially looking at affordability sensibly beyond State Pension Age. They work from a much broader perspective - but don't have the cheapest rates."

(Stakeholder Interview)

As a result, it is common for specialists to lend routinely to 80 or beyond – or to even not set an age limit but look at each case on its own merits. The trade-off for the borrower is that the rate will then reflect the additional work and risk being undertaken and will be higher than the rates advertised by the scale providers for their standard products. Several examples of niche product and marketing campaigns were noted as part of this research including the approach to the use of Lasting Power of Attorney by the Vernon Building Society and the Retirement Lifestyle Booster by The Family Building Society.

> “We have now dropped our previous age 85 maximum and will lend for as long as required provided that the interest can continue to be covered and the LTV is acceptable”

(Stakeholder Interview)

For borrowers, finding a small lender can be much more difficult than approaching a major high street brand, unless the borrower happens to have a small lender on their doorstep. While the innovative approach taken by some smaller building societies can provide opportunities for borrowing, it does require either the customer or an intermediary to do the shopping around to find the offers available and further work to understand the criteria applied to lending (which may include geographical limitations).

> “It is the mutual sector that is addressing this need [for lending to older borrowers] as it is a more natural part of the market for them”

(Stakeholder Interview)

MMR brings change to conduct regulation in the residential mortgage market

Implementation of the Mortgage Market Review (MMR) in April 2014 brought fundamental change to the sale of residential mortgages. It introduced the principle of responsible lending and the associated need to establish the affordability of a loan advanced to a borrower.

The way in which these rules have been implemented has varied between lenders. In particular, when assessing affordability for older borrowers, lenders have adopted different approaches to assessing the sustainability of income, for example:

- Most lenders are reported to not take account of investment income, although for some borrowers this may represent a significant proportion of their income;
- Some will not consider employment income sustainable for an extended period beyond state pension age;
- Different approaches have been taken to private pension income with some lenders requiring both parties in a couple to have a secured pension income (either a defined benefit pension or an annuity);
- Different approaches to non-annuitised defined contribution pension pots with some lenders not taking these fully into account as a possible income source due to the pension freedoms (see below for more detail).

Although regulation did not explicitly impose an age cap, some lenders also responded to MMR by capping the age to which they would lend on residential mortgages.

"MMR did distort the market by driving down lending to older groups. We are now returning to the norm and extending ages"

(Stakeholder Interview)

The different approaches to assessing income have led some older borrowers to feel poorly treated and feel a difference between what they believe is affordable (given their mix of income) and the lenders' approach. This led to an increase in the number of complaints received by the Financial Ombudsman Service (FOS) from older borrowers and a number of examples of the Ombudsman finding in favour of the consumer[50].

"Lots of older people can afford a mortgage but can't prove it to satisfaction of lender"

(Stakeholder Interview)

Pension freedoms have created more uncertainty and complexity for residential lenders

The pension freedoms implemented in April 2015 have raised additional challenges for lenders assessing affordability. Prior to the changes, a pension or annuity was seen as a secure income but post-freedoms all retirees can choose to take their pensions as lump sums or drawdown the capital rather than purchase a guaranteed income. As a result, far fewer annuities are being purchased . Lenders cannot assume that pension pots will generate a guaranteed income. Each lender is assessing how it will deal with the consequences of choice.

A conservative choice would be to continue to accept evidence of a guaranteed income but this does not help when assessing affordability for a pre-retiree who has the choice of how to use their pension ahead of them. Others take the view that a borrower with a history of responsible borrowing is unlikely to change this at retirement and will seek to secure an income sufficient to continue servicing their loan and make assumptions about the income that can be safely generated in drawdown from a fund – typically this level is assessed at around 4%.

"Pension freedoms [are] a great concept but it has thrown a spanner in the works."

(Stakeholder Interview)

However, if the current trend toward pension drawdown continues, even a reasonably prudent borrower may find themselves stretched if markets move against them significantly reducing the fund available to drawdown. But if the loan is small in proportion to the total assets available and/or the term in retirement is short, these factors will significantly reduce the risk.

"We will look at DC pot and take a view depending on how close they are to retirement"

(Stakeholder Interview)

Providers are still trying to come to terms with all the implications of the new environment for responsible lending and so will tend to default to caution whilst consumer behaviour is still largely unknown and good practice is still being established.

"Most big lenders won't take drawdown income into account. They're concerned about volatility of income as well as [having] concerns about how people use pot."

(Stakeholder Interview)

Prudential regulation may limit lending to older borrowers

Prudential regulation also exerts a potentially powerful but less overt influence.

Prudential regulation is primary concerned with the financial stability of the product providers. The Prudential Regulatory Authority (PRA) sets capital requirements for the lenders and is concerned with the quality of lending by providers, using tools such as Loan to Value (LTV) and Debt to Income (DTI) ratios. The larger lenders are able to develop and agree capital models with the PRA that reflect the particular profile of their business and the strength of their controls and management when assessing the capital they are required to hold. Smaller lenders have to use a standard model operated by the PRA.

A number of respondents suggested that this could be constraining the development of the market for older borrowers. The standard model aims to contain the degree to which smaller lenders can be stretched by risky lending. One way it does this is by limiting the amount of specialist loans it can write. The PRA rules include loans to older borrowers in this category. This is of particular importance as it is the smaller lenders who are the innovators in this market through their practice of individual underwriting.

Reputational risk may prevent lenders from entering or expanding market

The older borrower market has a higher perceived reputational risk for lenders and advisers. This arises from a number of factors:

- Borrowing later in life still has some social stigma attached;
- Older borrowers are often seen as being potentially more vulnerable;
- The financial issues older borrowers face are more complex, the conduct risk is therefore potentially higher;
- MMR is still bedding in and the concept of responsible lending is still developing, especially in relation to older borrowers, so 'what is good practice?' is still fluid
- Repossessions as a ultimate sanction are emotive and even more so when associated with older people;
- Beneficiaries may seek to challenge the actions of providers and advisers.
- Many lenders remain concerned about the risks associated with this market segment and this may be acting as a barrier to the further development of propositions for later life.

5.3 Lifetime mortgage lenders a smaller but growing part of the market

The lifetime mortgage market is separate and distinct from the standard residential market. The funding model and product design are very different.

Different funding models and solvency rules apply

Prudential regulation for lifetime mortgages is dealt with separately to residential mortgages. The Solvency II life assurance regime is used. This is appropriate as the main risks being managed by providers are mortality and morbidity rather than credit. As funding currently for lifetime mortgages is from insurers with large annuity books, these insurers will typically be running bespoke capital models under Solvency II. With the demise of compulsory purchase annuities following pension freedoms, there may be fewer liabilities for matching in the future, although this decline is likely to be offset in the short to medium term by benefit buy-outs by defined benefit pension schemes. The market may therefore likely be bounded at some point by this unless alternative funding is found. While funding is seen as technical and complex, this point does not appear to be a constraint currently although some respondents thought it may limit the scope for this market in the future.

"If the lifetime market expands from today to £10bn, there could be a funding issue."

(Stakeholder Interview)

Four life companies dominate lifetime mortgage lending

At present, the banks and building societies operate only in the residential mortgage market and not in lifetime mortgage lending. Extending into the lifetime mortgage market would be a big step: not impossible but one which would require a different mind-set and business model.

"Lenders could do it [lifetime mortgages] if it fitted with their internal risk appetite"

(Stakeholder Interview)

The lifetime mortgage market is a niche market compared to residential mortgages. There are four major players acting as providers – AVIVA, Liverpool Victoria, JUST and Legal & General (L&G). The first three have been longstanding players but L&G were new to the market in 2015.There are also a number of smaller specialists who rely on external funding from other institutions or investors - typically life assurers with significant annuity books.

The main trends in the market in the last 5 years have been a slow reduction in rates charged (from around 8% to 5%) and the move from single advances to products with a drawdown facility. The latter allows the borrower to arrange a facility but then draw on as much or as little of the capital as they need and to come back at a later time to draw down more up to the limit of the facility. This increased flexibility can reduce significantly the roll up of interest.

Other recent innovations and developments in the lifetime mortgage market have included:

- Lower age limits for customers;
- Fee-free drawdown facilities;
- Products where interest payments that can be switched on and off; and
- Products where partial repayments of capital can be made without triggering heavy early redemption charges.

Some of these are called 'hybrid' products that seek to bridge the gap between traditional lifetime and residential mortgages. An example of such hybrids quoted by a number of respondents is the Hodge Lifetime 'Retirement Mortgage' which is a lifetime mortgage which starts as an interest paying contract but has the option to convert to roll up at age 80 or after 5 years.

"The middle ground is something that allows flexing between repayment and interest only with options for payment holiday or even over-payment without penalties. But care needs to be taken so that the product doesn't become too complex for the customer to understand and too complex and expensive for the lender to service. But the industry needs to strike on a suitable solution for this market as demand is only going to increase – especially in the longer term."

(Stakeholder Interview)

Almost all lifetime mortgages are sold through specialist intermediaries rather than direct with the lender.

Lifetime mortgages subject to additional self-regulation

Product providers in the lifetime mortgage market also have to engage with trade-body standards. Whilst this is not regulation in statutory form, it operates as an important self-regulatory force. The standards were created to put in place strong consumer protections 25 years ago and are managed under the auspices of the Equity Release Council (formerly SHIP) . Standards include the requirement that there can be no negative equity on the property – borrowers (and importantly their estate) cannot owe more in capital and interest than the value of their property.

"[There is] a strong pressure to maintain the standards for equity release products in their current form. Any changes – such as to the 'no negative equity' guarantee - risk being interpreted as retrograde and hence risk undermining consumer trust"

(Stakeholder Interview)

More complex products also more expensive

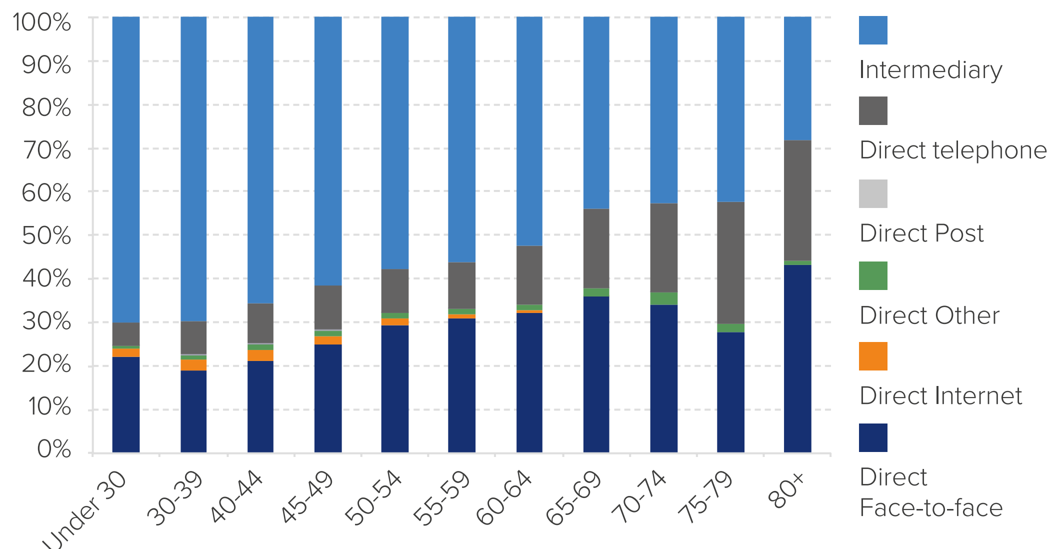
For providers, products with flexibility and guarantees will require additional reserves and matching assets. For residential mortgages we have seen how this can affect their capital requirements whilst in the lifetime market, finding matching funding is a key constraint on provider capacity. We have also noted the impact of system constraints. As such thicker margins are required and so may make the products less attractive, especially when compared to volume residential mortgage rates. It may also require the use of larger early redemption penalties and other charges to protect provider revenues if customers seek to redeem early.

5.4 Information and advice silos mirror lending models

Lenders provide information and advice to majority of older borrowers

The main residential mortgage lenders continue to provide direct services to customers with advice in branch and over the phone. This is important to existing borrowers as it is likely to be the first point of enquiry. It is also important for older borrowers. Although 60%-70% of residential mortgage sales among younger groups are through intermediaries and 30%-40% are sold direct by lenders, the position is nearly reversed among the over 55s. Among the over 55s, face-to-face sales in branches or sales by telephone become much more significant (Figure 13). This is a consequence of both consumers having a long-term relationship with those lenders and the mortgage broker proposition and business model being better suited to simpler, younger cases. 99% of sales to the over 55s are advised.

Figure 13:
Number of residential mortgage sales by channel and age (excludes lifetime mortgages)



Source: Analysis of CML data

National and network brokers support some deals

The residential broking market is still largely populated by a small number of national networks (e.g. Countrywide, John Charcol, London & Country) who dominate market share and a large number of smaller local firms. These rely on local relationships with estate agents, solicitors or IFAs to obtain referrals. With the prevalence of short term fixed rate deals, they are able to establish a relationship with their customers who return to remortgage every two to three years.

Mortgage brokers are required to advise consumers on the most appropriate residential mortgage for their circumstances, even if the type of loan is not one the broker can arrange through their own commercial relationships. However, they are not required to consider lifetime mortgages in the scope of their advice, so whilst they often will have referral arrangements in place for lifetime mortgages, there is no guarantee of this. Moreover, few mortgage brokers have the expertise to advise on pensions and investments as part of the discussion with the customer, subjects that are often integral to the customer's plans for borrowing in later life.

"Intermediaries need to upskill to look more holistically at the client's circumstances and potential risks in retirement"

(Stakeholder Interview)

Residential mortgage sales are paid for through a procurement fee paid by the lender, typically between 0.3% and 0.5% of the value of the loan, although some brokers will also charge the customer a commission on top of their procurement fee, particularly for complex cases. Since younger customers tend to borrow more than older customers and cases are typically simpler to service, it could be argued that brokers have an incentive to focus on younger customers.

Most mortgage brokers and financial advisers actively choose not to transact lifetime mortgage business even if they acquire the additional qualifications. They may judge that the additional effort in understanding the market and developing the skills to advise efficiently will not produce sufficient return for them when compared to advising on residential mortgages.

"There is not enough [lifetime mortgage] business at the moment to make it viable for us but that is changing and we are looking at it."

(Stakeholder Interview)

Lifetime mortgage specialist advice concentrated

In contrast to the residential advice market, advice for lifetime mortgages is highly concentrated amongst a very small number of specialist advisers, notably Key Retirement Services and Age Partnership. These firms have created a national presence through press and digital advertising and are perceived as 'safe hands' for referrals from residential brokers. They have also developed deeper referral relationships with some of the large lenders looking to refer on business – in particular, to provide a service to customers who are no longer able to service interest only mortgages.

The adviser market is relatively small and concentrated, in part due to the small number of lenders but also because costs are relatively high due to the additional regulatory permission and qualification requirements, the complexity and length of the advice process and the perceived risks involved in advising on equity release which acts as a barrier to entry. The view was expressed by one stakeholder operating in the lifetime mortgage market that the market does not serve the consumer well due to the focus by lenders on competing for distribution.

"Competition for distribution is crowding out competition for the end consumer"

(Stakeholder Interview)

It is estimated that there are around 750 advisers authorised in total but many of these are either inactive or place just a handful of cases each year.

"There are a lot of 'dabblers' who have the qualifications but do very little business"

(Stakeholder Interview)

Our respondents generally saw little presence of IFAs in older borrowing. The reason given by respondents for the general absence of IFA advice was that since the Retail Distribution Review (RDR), all advice was fee-based and was considered or thought to be too expensive by most clients.

"Wealth managers only deal with the high net worth and there is not enough money in vanilla mortgage products for advisers when compared to investments and pensions."

(Stakeholder Interview)

Lifetime mortgage advisers generally do not advise on residential mortgages. However, one of the major specialists has recently started to advise on both lifetime and residential.

"You can get advice on equity release from specialist. You won't get equity release advice from mortgage broker - but you can get advice on mortgages. You need to consider whether you are better off drawing equity from home or drawing down pension – you can get advice on the latter from IFA but not the others. Nowhere can you get advice on all options."

(Stakeholder Interview)

Information and guidance services also require more integration

While some not-for-profit agencies such as StepChange do offer help and advice on both residential and lifetime mortgages, other information and guidance services either provide limited information to older borrowers or do not bring together all of the elements of advice in once place. At the time of writing, publicly funded financial guidance services were subject to a review and restructuring that is expected to bring the Money Advice Service, PensionWise and TPAS together in one organisation, a move that could facilitate more integrated guidance to older borrowers.

"We need another arm for PensionWise that looks at property … help people know what questions to ask if looking to release equity. PensionWise should become RetirementWise where it includes all assets in retirement to arm people for discussion with advisers."

(Stakeholder Interview)

5.5 Advice to older borrowers more complex and costs higher

One of the reasons for the lack of integration between residential and lifetime mortgage advice is the added complexity of dealing with older borrowers and the more complex lending criteria and underwriting requirements of lenders.

Lenders and advisers have to deal with different and more complex circumstances and risks than in the traditional residential market which results in a more time-consuming and complex lending process. The financial affairs of older borrowers are also typically more complex than those of younger borrowers due to the mix of pension, benefit, inheritance, care, tax and a range of other financial matters. This requires more information and effort for advisers in researching and matching lenders to consumer circumstances and needs. This complexity may be acting as a barrier to growth and competition.

Cost of delivering advice can be higher

Complexity also brings additional costs for advisers. Back office systems are more complex; time spent with the customer is longer; time spent understanding lenders' criteria is longer; compliance checks may need to be more robust and comprehensive; insurance cover may be more expensive; conversion rates may be lower. The ability to operationalise advice to older borrowers is more difficult than for younger, more standard cases. While some of those interviewed felt that there was scope for improvements in back-office systems and support, we found no evidence that developments such as robo-advice would be appropriate in this market and no evidence of appetite from older borrowers for technology-based advice solutions.

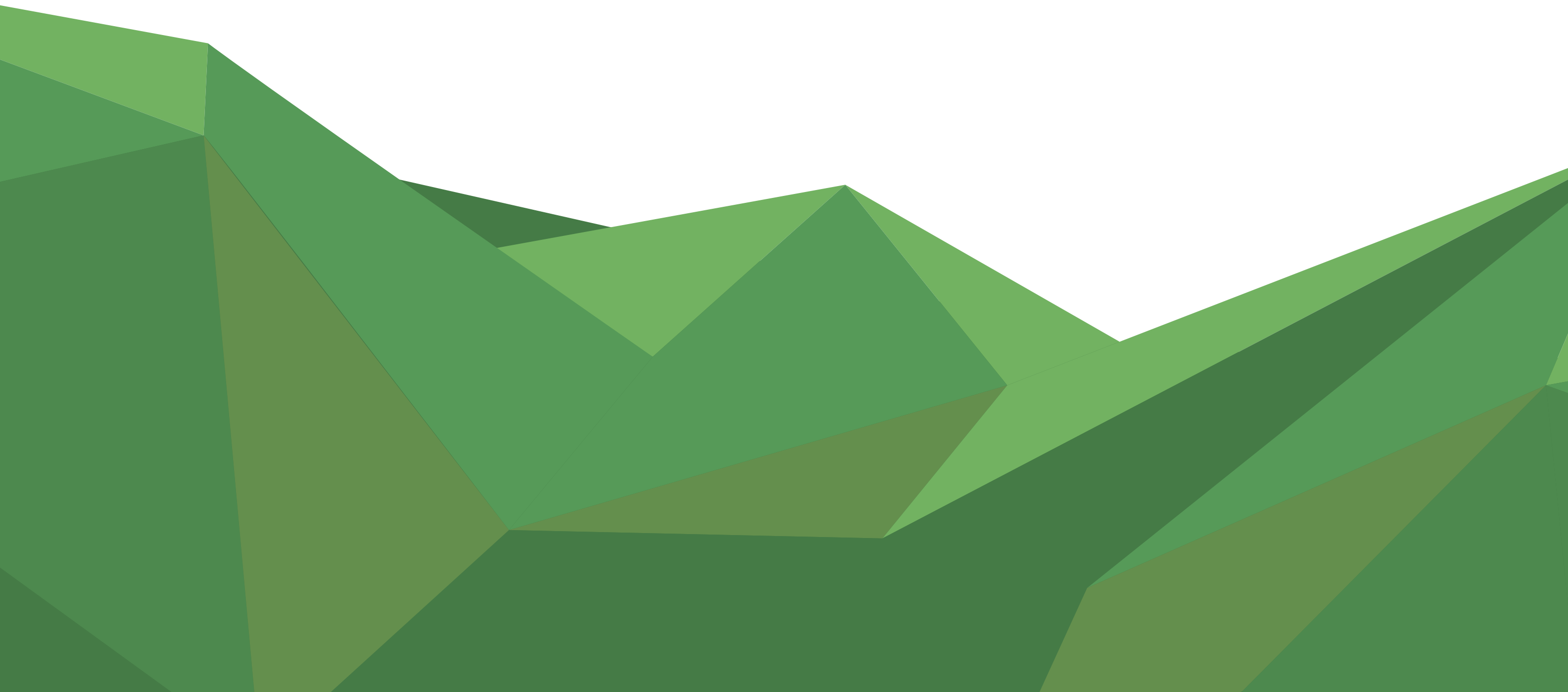
Are differential procurement fees shaping outcomes for consumers?

For advisers, more work is required to advise and place older borrowers' loans and yet typically they receive the same procuration fees on residential mortgages as they do for simpler cases. While brokers may supplement the procurement fee by charging the customer as well, this practice has been criticised as lacking transparency for the customer. Residential mortgage brokers may therefore choose to deal with simpler, lower cost cases rather than more costly and less economically viable cases from older customers.

The situation is even more complex when the procurement fee for lifetime mortgages is taken into account. The procurement fee for lifetime mortgages is typically 4-5 times that of residential mortgages (around 2-3%). While the workload may be somewhat greater than for residential mortgage advice, it seems feasible that the difference may act as an incentive to sell a lifetime mortgage rather than a residential mortgage.

With suitability rules not requiring both mortgage types to be considered for older borrowers and procurement fees are so different, the playing field is far from level between the two market sectors. The current lending and advice framework could be shaping consumer outcomes that are sub-optimal; in particular because consumers are not being advised on the alternatives to a residential or lifetime mortgage and being recommended one or the other depending on where they start their advice journey.

Chapter 6: Conclusions and recommendations: making the advice framework better



Conclusions and recommendations: making the advice framework better

In this section of the report we draw a number of conclusions and consider how the market could respond to work better for older borrowers.

The research concludes that the market could work better for older consumers, in particular in delivering information, guidance and advice that bridge the two market silos described earlier.

We have developed two core sets of recommendations that address our main conclusions on the issues facing older borrowers and which should strengthen the advice framework. The first set of recommendations is concerned with helping consumers navigate the market and the second with changes to product design that could make the market more accessible and a better fit with the realities of retirement finances.

6.1 Older consumers needs and preferences not being met in full

Demand for borrowing growing

When compared to the total mortgage market, later life borrowing is a relatively small part of the market. Although demand for borrowing in later life is difficult to assess in full, in particular the scale of pent up demand that would be realised if the market were more accessible for older borrowers, there are a number of demographic, economic, policy, social and attitudinal indicators that suggest that demand is growing and will continue to grow in the future.

This conclusion is further supported by research commissioned by the Building Societies Association (BSA) in their report 'Lengthening the Ladder'[53]. The trend implies more and more households aged 55+ seeking mortgages of various kinds at early and later stages of retirement.

Changing mindset among older borrowers

Moreover, attitudes appear to be changing and borrowing against housing equity is slowly, albeit reluctantly, becoming more acceptable as a way of supplementing retirement income or to improve welfare in later life. What constitutes a good outcome for consumers appears to be changing (in the minds of some consumers at least) from one where mortgages and other debt are fully paid off in retirement to one where home equity is an asset against which it is acceptable to borrow throughout retirement, to be paid off either on death or the earlier sale of the home or other investments (including other property).

The current market structure can leave consumers frustrated

This research suggests that older borrowers are finding that borrowing in later life is not straightforward. They describe themselves frustrated by the process and worried about the unknown risks to which they might be exposing themselves and their families. Navigating their way through the residential and lifetime mortgage markets is not simple and made worse by the lack of integration in the supply of lending and advice. This view was echoed by some of the stakeholders interviewed for this project.

"The advice process doesn't necessarily ensure access or good outcomes [for older borrowers] … because it doesn't require the adviser to think beyond the affordability of a residential mortgage"

(Stakeholder Interview)

Later life borrowers expect flexibility and choice in mortgage borrowing

At present, neither residential mortgages nor lifetime mortgages are perceived by our research respondents to fully meet their needs.

Residential mortgages can leave the borrower uncertain about their ability to repay and the consequences if they can't. Borrowers can also be frustrated at the barriers to borrowing that are put in their way, some of which seem unfair or inappropriate.

Lifetime mortgages can leave borrowers feeling uncertain about their inflexibility should their future needs change. While some lifetime mortgages have become much more flexible, this seems to not be widely recognised by older consumers. Neither do consumers seem to have fully recognised the standards that are now applied to most of the sector.

At heart, later life borrowers want to be presented with a mortgage range that gives them choice over how much they can borrow, over what period and with a range of options over how to repay (including deferring payment until they no longer need their home). They are not averse to the general concept of a lifetime mortgage but are fearful of something that comes with an equity release label or something that looks and feels as though it is not a mainstream mortgage product. Making lifetime mortgages a part of the normal mortgage discussion, whether at the point of need or earlier, would help both in terms of awareness and reputation. In terms of mortgage solutions, older borrowers would like:

- To continue to borrow through a mainstream residential mortgage if they can but only if they know that this doesn't just delay the pain (i.e. they would like to know that there is a long-term solution for them); or

- To find a solution that doesn't leave them fearing that they have been foolish. Given their fear of misselling, for some this means engaging with high street brands for lifetime mortgages;

- To get positive reinforcing messages that they haven't made a mistake in borrowing in later life.

Presenting lifetime mortgages as simply a continuation of the normal mortgage process would help ease concerns. However, at present, consumers find that the two parts of the market that they might want to access are very separate and that there is no simple route to finding out about both sides of the market, comparing the benefits and risks or working out which is most appropriate to their needs. What they would like is a way to access help with identifying their need, and clear explanation of their options for meeting that need. At the moment they experience the market and advice as a leap from mainstream to specialist market and advice without really understanding the reasons why they are so separate. It has clear consequences for their sense of control and choice and for their perception of equity release. The alternative to borrowing in later life would seem to suggest hardship for both households and their extended families in later life. Alternatives to borrowing such as renting or downsizing are not always appropriate, available or acceptable.

Consumers need information, guidance and advice that bridges the two market silos

Information, guidance and advice that bridges the residential and lifetime mortgage markets is virtually impossible to find, resulting in either a frustrating, lengthy journey towards a residential or lifetime mortgage or a sudden decision to take out a lifetime mortgage. Whichever course is taken, the advice given does not typically include advice on whether an alternative type of mortgage might be better suited.

Our research suggests that older borrowers face a number of issues with the market; in particular they find it difficult to navigate the full market because of the silos in which it operates and in particular cannot access advice on the full market in one place. They also find that products are difficult to compare and understand due to the lack of joined-up information, guidance and advice from independent sources

Although there is not a rejection of advice itself, respondents to this project were generally fearful of financial advisers, albeit that respondents were not clear about the distinction between information, guidance and advice. They were more comfortable with bank and building society advisers than other advisers and, once they had decided to go ahead with a lifetime mortgage, they were less fearful of the specialist equity release advisers, perhaps because they didn't always recognise either group as financial advisers.

Research suggests that later life borrowers would ideally like:

- To get help and advice from sources that are known to them (i.e. high street or other well-known brands);

- But also to have somewhere to discuss their options that does not expose them to the risk of rejection by lenders.

Changes are required to later life borrowing market to reflect consumer needs, expectations and preferences

It follows therefore that if this growing need is to be facilitated more fully by the lending and advice industry, products and associated advice should be structured such that:

- Advice (both regulated and unregulated guidance) is available in places and formats that are accessible to those in this age group, in particular as they age;

- Advice processes are designed to recognise and help to address the complexity of retirement issues and personal circumstances;

- Regulation and qualifications support the delivery of more integrated advice to older households;

- Products are designed to reflect the economic realities of life in retirement (and how they are changing), whilst allowing for flexibility as life changes.

- Prima facie, the current advice framework appears not to be fully aligned to consumer needs and expectations and does not reflect consumer preferences for sources of advice.

6.2 Is this a well-functioning market?

In order to assess more fully whether the market for later life borrowing is working well, it is helpful to look at what the regulator considers to be the key criteria. In describing its statutory objective, the FCA characterises markets that work well for consumers as those where:

- The industry is run with integrity;
- Firms provide consumers with appropriate products and services;
- Firms compete to meet consumers' needs with new and better value products;
- Consumers can trust that firms have their best interests at heart[54].

In addition, the regulatory environment provides for consumer protection through rules and principles such as 'Treating Customers Fairly' and by encouraging effective competition.

"Competition is a process of rivalry whereby suppliers compete to meet customer needs. This process drives costs and prices down, it drives choice and quality up and, possibly most importantly, it drives innovation forward.[55]"

(Stakeholder Interview)

The structure of the market and the current advice framework appear to operate as a potential barrier to good outcomes for consumers needing to borrow in later life. In particular:

- Consumers find it difficult to navigate the full market because of the silos in which it operates and in particular cannot access advice on the full market in one place;
- A number of supply-side factors are reinforcing the silos including the different funding and regulatory regimes, the different levels of remuneration for advisers between the two parts of the market; and differences in attitudes to lending to this part of the population;
- Consumers are frustrated at barriers to borrowing that are put in their way, some of which can seem to them unfair or inappropriate;
- Consumers find the products available don't fully meet their needs and that products are difficult to compare and understand.

We reach these conclusions based on the views of consumers, lenders and advisers expressed for this project as well as findings from other research studies. Although there are a number of reassuring developments, it would appear to fail to provide customers with appropriate products and services and to fully compete to deliver better value products.

Positive signs of change

If we assess what we have learned from and about the industry in this project against the criteria above, there are a number of positive developments:

Integrity: In spite of on-going reviews of the mortgage market, there are a number of signs that the integrity of the market has improved significantly since the misselling scandals of the 1980s and the FSA reviews in the early 2000s

- In January 2017, FOS reported improvements in lenders approaches to using age as a criteria for limiting lending;

- The FCA's responsible lending review found that lenders were following their own risk appetite and policies in lending to older age groups (albeit that some of those policies might limit lending) and found no decline in lending post MMR, although they did express some concerns about product design for older borrowers and committed to return to the issue in their ageing population project;

- The number of initiatives described in interviews with lenders and advisers designed to address specific issues faced by ageing or vulnerable customers: for example support for customers with physical or cognitive abilities;

- The lifetime mortgage market's continued adherence to the standards of the Equity Release Council;

- The work of a number of professional and trade bodies in advancing thought leadership and sound business practices in lending in later life including the CML, BSA, SOLLA, SMP and AMI;

- The FCA's review of ageing population and the growing interest that this and other developments have stimulated across the industry.

Supply and competition: There are also signs of the strengthening of competition in the lending sector evidenced by the entry of new players in both residential and lifetime mortgage lending and by falling interest rates and charges in the lifetime mortgage market.

- Some lenders are now actively promoting lending to older borrowers and some are applying greater flexibility to their criteria for lending;

- There is no evidence from this study of a shortage of supply of lending in the lifetime mortgage market and there is evidence that new product designs are meeting a wider range of consumer needs;

- Innovation in product design is advancing with more flexible and lower cost lifetime mortgages while a number of residential mortgage lenders are developing new propositions (but not new products) for the older borrower;

- One advice firm told us that they now offer advice on both residential and lifetime mortgages to older borrowers, albeit that the two divisions are not fully integrated.

Trust: Lost in the latter part of the 20th century consumer trust is gradually, but only partially, being restored, evidenced by rising lifetime mortgage sales, some of the positive comments made by consumers in this research about the new, more flexible products emerging and consumer comments about the appropriateness of the lifetime mortgage sales process.

However, scope for improvement

Again, assessing against the criteria above we find that the market for lending to older consumers is not working as well as it might for older consumers.

Integrity: While we found no examples of a lack of integrity among lenders or advisers in this study, there remains a perception among customers that they are not being treated fairly and that the industry lacks integrity; in some cases the residential mortgage market but more often the lifetime mortgage market. Much of this is a reflection of long distant cases of misselling or specific cases of being rejected for a residential mortgage and not an overall reflection of the current market.

The integrity of the equity release market has been the subject of considerable media, industry and regulator attention since the time of the misselling scandals of the 1980s[56] . The Financial Services Authority (FSA – the predecessor of the FCA) reviewed the equity release market in 2005 and 2006 and found that a very significant proportion of advised sales were failing to meet the FSA standards for suitability[57].

One lender also indicated concern about the level of procurement fees paid in the lifetime mortgage market and the failure of the industry as a whole to cap remuneration of advisers

Supply and competition: This study highlights a number of concerns about the supply of products and services to older borrowers:

- Although residential mortgage lenders are adhering to responsible lending policies that meet their appetites for risk and are some are becoming more flexible in their approach to older borrowers, it remains unclear how much this is truly extending the supply of residential lending and satisfying demand;

- The advice sector for older borrowers, in particular advice on lifetime mortgages, remains highly concentrated, due in part to the scale of demand and the complexity, risk and cost of delivering advice;

- It was beyond the scope of this review to consider whether competition is effective in driving down the cost of advice but some commentators indicated that fees may too high in some parts of the market. However, there are indications that more could be done to improve the sales process.

Fundamentally, the market for borrowing in later life is not integrated in terms of lenders, products, regulatory policy or, perhaps most importantly advice services. There is no single source of advice that covers both residential and lifetime mortgages. Customers unsure of which is right for them are highly unlikely to find anyone to compare the risks and benefits of each. If they also have more complex pension, benefit and/or care needs, they are highly unlikely to find any organisation able to advise on their full range of needs.

Trust: While the lifetime mortgage market has done much to improve standards and products, our consumer research pointed to a lingering and fairly pervasive lack of trust in the market. Moreover, the research suggests a more widespread lack of trust in advisers and product markets that they consider to be complex and opaque. While residential mortgages do not fall into this category, for some consumers trust in the main lenders may be eroded by what they consider to be unfair treatment when applying for an extension or renewal of a loan.

6.3 Solutions require changes to business models, products, regulation and advice services

There is no simple, single change that would improve the market for older borrowers. Many of the solutions will require a commitment across the two market silos identified earlier in this report and with support from the FCA and PRA and the engagement with the pensions industry as well as the new single public financial guidance body.

The market is gradually changing and new solutions are being considered and developed. It may be that the market will find solutions to some or all of these problems. Any changes that might constrain change or place significant additional costs on the industry (and hence on consumers) need to be weighed carefully to ensure that any such constraints or costs are outweighed by the overall benefits to consumers.

This research suggests that further work should be carried out in two areas:

Helping consumers navigate the market: Consumers need help navigating the full market with access to information, guidance and advice on all products that may be suitable for them.

Designing products to support retirement: There remains some way to go in aligning product design in both residential and lifetime mortgages to the needs and preferences of older borrowers. Greater flexibility across all products will help the industry better serve the needs of this consumer group, albeit that this may also come at a cost.

Helping consumers navigate the industry

By far the single most important issue facing older borrowers is the inability to find information, guidance and advice that can help them assess the range of options available to them across the residential and lifetime mortgage markets. In some cases, consumers will find that only one option (residential or lifetime) is available to them but with flexibility growing in both markets, we anticipate that more, older borrowers may require advice that bridges the two. The need to look across the two sectors is particularly acute where borrowers approach but are rejected by their first choice of lender and have no relationship with a broker or adviser. Integrated navigation needs to work in several parts of the industry including the providers of generic advice, residential and lifetime lenders and advisers operating in both parts of the market.

Ultimately, the needs of these consumers will be best met if they can access advice across the market from brands that they trust. However, we recognise that the journey towards this goal may take a number of steps, not least because the regulatory regime separates the two parts of the market and advising on both parts of the market brings additional costs to firms and consumers. Those steps include:

1. Signposting later life borrowers to information and help available from the new single public financial guidance body (SFGB) or other independent bodies that produce integrated information across the two parts of the market;

2. Developing generic material that can be passed to later life borrowers that explains the options available to them;

3. Signposting or referring later life borrowers to an adviser who can provide advice across the two parts of the market;

4. Providing in-house advice that bridges both parts of the market.

Facilitating this change may also require work to consider the best way forward in terms of advice incentives.

The core recommendations below suggest ways in which the guidance, lending and advice sectors could work to provide greater integration across the two parts of the market. Back-office technology is also needed to support integration.

We recognise that bringing together advice on residential and lifetime mortgages could be difficult while the incentives for advisers are so different. While the cost of delivering lifetime mortgage advice may still be higher than residential, it is not clear that the differential in procurement fees of 5-6 times that for residential mortgages reflects the difference in cost. However, it is also not clear that the level of procurement fees for residential mortgages is adequate for the costs of delivering advice to older borrowers. Clearly this is a complex area and it was beyond the scope of this project to explore the economics in more detail. However, if the difference in revenue does act as a barrier to integration it seems worthy of further investigation.

Table 2:
Recommendations for helping consumers navigate the market

Helping consumers navigate the market. Government, industry and regulators should find ways to ensure that consumers seeking to borrow in later life are provided with information, guidance and advice which considers both forms of lending (residential and lifetime mortgages).	1. The SFGB should explore ways of helping integrate support across residential and lifetime mortgage sectors for older consumers and, if possible to integrating this with pension guidance as part of planning for and support in retirement. 2. Guidance services and industry should look to develop better tools to help consumers compare and evaluate objectively their later life borrowing options. 3. The industry should encourage and facilitate an expansion of advice services by advisers to include both residential and lifetime mortgages. 4. Lenders and advisers operating in this market should consider how best to deliver a more joined up approach to advising later life borrowers, firstly by evaluating the costs and benefits of the four options set out above. 5. Back-office systems that support advisers across both residential and lifetime mortgages for older borrowers should be developed to help improve information flows and reduce the cost of the sales process. 6. To facilitate clearer navigation of the market for consumers, the FCA and industry should continue to work together to better understand the economics of delivering advice to older borrowers and explore ways in which incentives can be aligned to support more integrated advice.

We have also considered recommending changes to the suitability rules that would require advice to those aged 55+ to include an assessment of whether a residential or lifetime mortgage would be most suitable. Ideally, if the industry embraces the changes above, this should not prove necessary. However, in the absence of industry initiatives, the FCA should consider whether rule changes are necessary and what impact the change could have on both consumers and the industry.

We have also considered whether further integration of examinations that relate to later life (mortgages, equity release, pensions, state benefits, care funding, investments) would help support more integrated advice. Although it is clear that consumer advice needs often bridge all of these needs, we accept that this would require a wide-ranging review of the examination framework.

The project also examined whether lessons could be learned from other markets, in particular in relation to the use of technology to help consumers. The research found little evidence that developing consumer-facing internet or other technology based solutions would help consumers in informing or helping consumers access and exert choice in this market. The one exception to this was the idea that guidance bodies could produce tools to help consumers evaluate the relative benefits and risks of the two different parts of the market and signpost consumers to sources of further help and advice. However, as noted above, several commentators felt that back-office solutions could further help to integrate the two markets and reduce costs.

Designing lending policies and products to support retirement.

According to our research and the findings of FOS, older borrowers can be frustrated at the lack of transparency or perceived fairness in lending criteria and affordability calculations by residential mortgage lenders. While the industry must clearly avoid engaging in anti-competitive behaviour, ways should be explored to create more informed debate about the financial issues facing older borrowers and ways in which the industry and regulators can adapt their views on affordability and mortgage repayment.

At present, responsible lending implies that a residential mortgage will need to be repaid in full by the end of the term. However, for some older borrowers the sale of the property or a transition to equity release may be the most appropriate repayment mechanism. The residential mortgage industry and regulators should explore ways of revisiting attitudes towards repayment of borrowing in later life that reflects the reality for some borrowers.

While it seems unlikely that banks and building societies will enter the lifetime mortgage market itself in the short to medium term, there may be ways of developing hybrid residential mortgage products that have some of the characteristics of the lifetime market or which allow for conversion to a lifetime mortgage (with another lender and with all of the advice protections) at the end of the term or when the customer is unable to keep up payments. This would provide customers with reassurance that there is an end solution to the borrowing needs and provide greater certainty of repayment for the original lender, thereby easing some of the risks. It might also help improve consumer confidence in the lifetime mortgage market in time.

Much has been done and continues to be done to improve the design and pricing of lifetime mortgages. Further work along these lines, in particular a focus on increased flexibility of partial or full repayment and lower costs and charges should help to improve the image of the sector.

However, this must not be achieved at the cost of lower standards and conduct across the sector. There are no suggestions from this research that either the sales process should be weakened or that features such as fixed rates of interest and the guarantee of no negative equity should be withdrawn.

Table 3:
Recommendations for designing lending and products to support retirement

Designing products to support retirement. Encouragement from the FCA, trade and professional bodies and others for residential mortgage lenders to review the appropriateness of the lending criteria and affordability rules for older borrowers and further initiatives by the lifetime mortgage market to improve flexibility and reduce costs.	7.	Regulators and residential mortgage lenders to explore how they judge affordability in retirement, taking account of income from investments, savings, DC pensions and state benefits.
	8.	Regulators and residential mortgage lenders to explore whether attitudes towards repayment mechanisms should be adapted to include sale of property and/or transfer to a lifetime mortgage.
	9.	Lifetime mortgage lenders to continue to build more flexibility into lifetime mortgage products to allow partial or full early repayment of interest and capital with lower costs for doing so.

Other features that may help both the lender and consumer are early support for later life decisions and difficulties and vulnerabilities that may arise later in life. Industry could explore ways of working with the Office of the Public Guardian to provide more extensive support for customers to put in place Lasting Power of Attorney and to consider how else they might provide support in later life.

Lenders might also wish to consider whether better communication of lending criteria and explanations for refusal to lend might help to inform consumers more broadly about borrowing in later life.

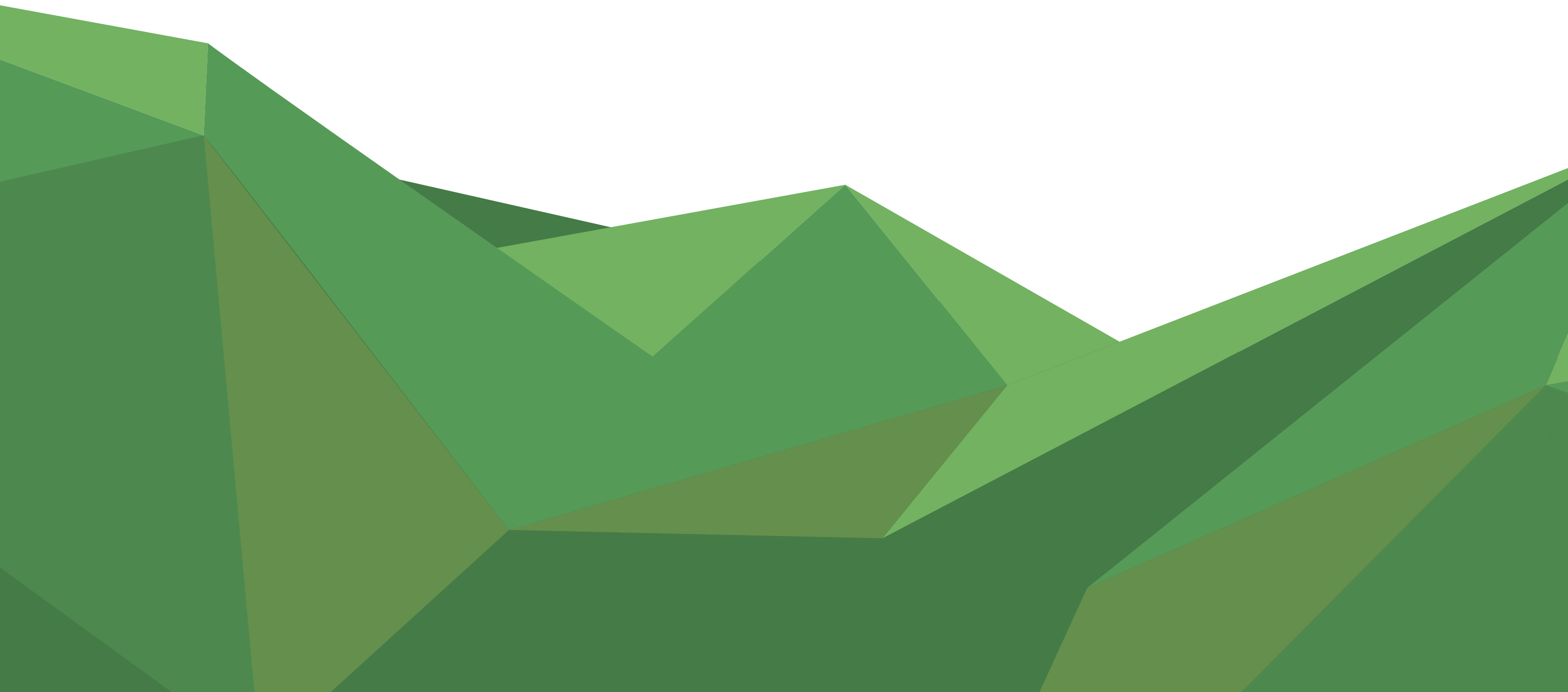
6.4 Aligning mindsets

It was clear from this research that the consumer and industry have different attitudes to borrowing in later life. The industry view is undoubtedly, and rightly, influenced by the need to ensure that they are lending responsibly and that the organisations tolerance for risk is not breached. However, the views held by some that people should not borrow in later life and that mortgages should always be repaid in full before earned income ceases seems to be out of kilter with both the realities of later life and the new mindset emerging among consumers.

There are many positive signs that industry and regulators are open to a new dialogue on meeting the needs of older consumers in a responsible but fair manner; not least the FCA's ageing population project and this and other similar pieces of work. The findings and recommendations of this project suggest that further work by industry and others (consumer and trade bodies as well as regulators and the pensions sector) is needed in the field of later life borrowing that will bring the attitudes and behaviour of the industry closer to that of the later life consumer.

The starting point for considering a new advice framework is therefore to create clarity across the market as to what consumer need it is servicing. **The market is not one of accumulating an asset but one of supporting retirement finances.** Changing the view of what the market is could help in considering how best to meet customer needs and more closely align demand and supply.

Chapter 7: Appendix One: Project Approach



Appendix One: Project Approach

The approach taken to conducting this project was to collate evidence from a number of sources, both primary and secondary in three main phases:

Desk research

The desk research for this report comprised an internet search and analysis of data requested from the Council of Mortgage Lenders and from the Wealth and Assets team at the Office for National Statistics.

The Council of Mortgage Lenders provided datasets of mortgage sales and mortgage stock. Sales data was provided for 2012 to 2016. This provided information on mortgage sales (at point of completion) and represented 90%-95% of all regulated mortgage sales. The stock data is collected half yearly (since 2015) and gives a snapshot of all regulated mortgages that are still live. Requested data from the first half of 2015 to the first half of 2016 was provided. Data was provided on those aged under 55 years and those aged 55 years and more. The data for those aged 55 years and more was further broken down by age groups.

The Equity Release Council also provided data on the number and value of equity release sales.

Data was requested from the Wealth and Assets team to examine the main components of household wealth in order to provide a better understanding of property debt within a household's overall wealth for those aged under 55 years old and those aged 55 years and more. The data for those aged 55 years and more was further broken down by age groups.

Stakeholder interviews

In order to assess more fully the role being played by industry and the temperature of concern and interest in this market, we conducted 20 one-to-one interviews with individuals from a variety of organisations (see Table 4 below).

Table 4:
Summary of stakeholder interviews

Type of organisation interviewed
Seven lenders split between residential and lifetime mortgages and between large and smaller lenders
3 intermediaries and 3 intermediary trade/professional bodies
1 statutory regulator and one industry standards body
2 consumer bodies, 1 debt advice agency
1 trade body and 1 technology provider

Consumer research

In order to identify consumer attitudes and behaviour among older borrowers, we conducted a series of 24 face to face depth interviews which were held between the 15th and 27th March 2017. Participants were recruited via our network of specialist recruiters across Northern Ireland, Scotland, Wales and England. Specific cities were as follows:

- Greater Belfast area
- Glasgow
- Leeds
- Birmingham
- Cardiff
- London
- Brighton & Hove

Once recruited, participants were given the option of being interviewed as a pair (if decisions had been made jointly) or individually, and in their own home or a neutral other location. Most opted to be interviewed in their own home, which allowed them to access paperwork, example advertising etc., which was helpful within the interviews. Recruitment proved to somewhat easier than anticipated, perhaps a reflection of the growing demand for borrowing in later life.

The detailed breakdown of interviewees was as follows:

Interview 1: younger, early in process	Male, 67, Northern Ireland – married, BC1, still has outstanding mortgage.
Interview 2: younger, early in process, interest-only mortgage	Husband and wife (57 and 51), Hove – married, BC1, still have outstanding interest-only mortgage.
Interview 3: early years of retirement, early in process	Male, 60, Leeds – single, BC1, still has outstanding interest-only mortgage
Interview 4: younger, early in process	Female, mid-60s, London – single living with partner, C2D (disabled partner receiving Attendance Allowance), she works part-time, small outstanding mortgage
Interview 5: older, early in process	Female, mid 70s, Brighton – married, both retired, BC1, small outstanding mortgage
Interview 6: older, early in process	Male, 75, Birmingham – married, C2D, outstanding mortgage
Interview 7: younger, mid-decision	Female, mid-60s, Leeds – single, BC1, no mortgage
Interview 8: younger, mid-decision	Female, 64, Leeds – single, C2D, outstanding mortgage
Interview 9: Younger, mid-decision	Male, 60, Birmingham – single, BC1, outstanding mortgage
Interview 10: Early years of retirement, mid-decision	Female, 68, Cardiff - single, C2D, outstanding mortgage
Interview 11: Early years of retirement, mid-decision	Husband and wife, 69/ 66, N. Ireland - married, BC1, small outstanding mortgage
Interview 12: Early years of retirement, mid-decision	Husband and wife, 76/70, N. Ireland – married, C2D, outstanding mortgage
Interview 13: Later retirement, mid-decision	Female, mid-70s, Glasgow – single, C2D, no mortgage
Interview 14: Later retirement, mid-decision	Male, mid-70s, retired courier, London – married, C2D, outstanding mortgage
Interview 15: Later retirement, mid-decision	Husband and wife (54 & 60), Cardiff – married, C2D, bankrupt, house repossessed now renting
Interview 16: Younger, has made decision	Female, 58, Birmingham – single, BC1, outstanding mortgage
Interview 17: Younger, has made decision	Female, 56, Cardiff – single (husband died 2 weeks previously), BC1, outstanding mortgage
Interview 18: Younger, has made decision	Male, 60, Brighton & Hove – single, C2D, no mortgage
Interview 19: Early years of retirement, has made decision	Female, 68, Birmingham – married, C2D, no mortgage
Interview 20: Early years of retirement, has made decision	Male, 60, Glasgow – single, C2D, outstanding mortgage
Interview 21: Early years of retirement, has made decision	Female, 65, London – married, BC1, outstanding mortgage
Interview 22: Later retirement, has made decision	Female, 74, Brighton & Hove – single, C2D, outstanding mortgage
Interview 23: Later retirement, has made decision	Female, 72, Glasgow – married, BC1, no mortgage
Interview 24: Later retirement, has made decision	Female, 72, N. Ireland – married, C2D, no mortgage

The interviews covered the following topics:

1. Introduction : covering participant's circumstances, attitudes to finances, retirement, inheritance, borrowing in retirement, financial advice and general reputation of equity release/ lifetime mortgages

2. Discussion of circumstances leading up to borrowing requirement

3. Information seeking and research carried out

4. Product choice and decision making, including advice sought

5. Priorities in the final 'decision'

6. Role of advice and advisers in the process

7. Reactions to findings and recommendations from desk research and stakeholder interviews.

Glossary of terms used

AMI	Association of Mortgage Intermediaries
BSA	Building Societies Association
CML	Council of Mortgage Lenders
CML Regulated Mortgage Survey (RMS) sales data	reports mortgage sales (at point of completion). Data represents 90%-95% of all regulated mortgage sales.
CML stock data	CML member firms report a snapshot of all regulated mortgages that are still live. Data is collected half yearly and is available from the first half of 2015.
DB	Defined benefit pension
DC	Defined contribution pension
DTI	Debt to Income ratio. DTI is used to describe the percentage of gross income that is used to pay debt
DWP	Department for Work and Pensions
ER	Equity Release. A term used to describe lifetime mortgages and home reversion plans collectively.
ERC	Equity Release Council
FCA	Financial Conduct Authority formerly known as FSA, Financial Services Authority
FOS	Financial Ombudsman Service
FSA	Financial Services Authority
GFC	Global Financial Crisis
HRP	Household Reference Person. This is the individual person within a household who acts as a reference point for producing further derived statistics and for characterising a whole household according to characteristics of the chosen reference person (e.g. by age).
IFA	Independent Financial Advisor
IMLA	Intermediary Mortgage Lenders Association
JRF	Joseph Rowntree Foundation
LTV	Loan-to-value ratio. LTV is used to describe the value of the mortgage as a percentage of the value of the property
MAS	Money Advice Service
MCOB	Mortgage Conduct of Business

MMR	Mortgage Market Review. A review of the mortgage sector conducted by the then Financial Services Authority
ONS	Office for National Statistics
PLSA	Pension and Lifetime Savings Association
PRA	Prudential Regulatory Authority
Residential mortgage.	A term used to describe regulated mortgages on private residences other than lifetime mortgages. Buy-to-let mortgages are also excluded from this definition.
RDR	Retail Distribution Review. A review by the then Financial Services Authority of how products and services were distributed to retail clients. It introduced a new set of guidelines and rules to provide greater clarity between the different types of service available, and make the charges associated with advice and services clear
SHIP	Safe Home Income Plans now known as ERC, Equity Release Council
SMP	Society of Mortgage Professionals
SOLLA	Society of Later Life Advisers
Solvency II	2009 Directive in European Union law that codifies and harmonises the EU insurance regulation. Primarily concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency
TPAS	The Pensions Advisory Service
WAS	Wealth and Assets Survey. A longitudinal, large-scale national panel survey of private households in Great Britain carried out by the Office for National Statistics. The survey gathers information on level of assets, savings and debt; saving for retirement; how wealth is distributed among households or individuals; and factors that affect financial planning. Data is currently available for four periods, Wave one (2006-2008) through to Wave four (2012-2014)

Endnotes

[1] By residential mortgages we mean mortgages secured against the borrower's home and lent for a fixed term with interest and capital repaid by the end of the term. The definition excludes lifetime mortgages, buy-to-let and commercial mortgages.

[2] By equity release, we mean both lifetime mortgages and home reversion plans where there is the ability to repay.

[3] ONS Wealth & Assets (2012-2014) - Number of households headed by a Household Reference Person (HRP) aged 55 or over. An HRP is the individual person within a household who acts as a reference point for producing further derived statistics and for characterising a whole household according to characteristics of the chosen reference person (e.g. by age).

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[7] The mean average is the total value divided by the number of units (in this case, the total property wealth divided by the number of households with property wealth.

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The Council of Mortgage Lenders

The Council of Mortgage Lenders (CML) is the trade association representing the mortgage industry. Its members comprise banks, building societies, insurance companies and other specialist residential mortgage lenders, which together represent around 98% of the UK mortgage assets.

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