Equity Release and Older Owners

WS3: Experiences of marginal and better of equity release consumers aged 65 and over

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Experiences of using equity release

This study sheds new light on the experiences and views of UK equity release consumers. Equity release allows older home owners to access the value of their homes without having to move or make monthly repayments; the debt is repaid via the sale of the property once the owner(s) dies or moves into long term care. Participants in our consumer study had held their equity release plans for a minimum of five years, but typically eight years or more, so we were able to capture the long-term experience of equity release. This is particularly advantageous since the suitability of equity release products depends, in part, on unknowable future events (future house value, longevity of the owner, future health and mobility needs, and future financial needs). People may feel very differently about the level of debt that is owed several years later, and they may have become more aware of features of the product which enhance or detract from its suitability for their needs and circumstances.

Making the most of equity release

Our research indicated that equity release often makes a positive difference to people's lives, and is used to meet a range of needs and preferences including home maintenance and improvements, debt clearance (mortgage and non-mortgage debt), everyday living expenses, divorce settlements, and the provision of financial support to children and grandchildren. Having had several years to reflect on, and evaluate, the decision to release equity, the majority of participants were satisfied with what it had enabled them to achieve.

> *"It was absolutely the right decision. I mean, why would I be sitting, you know, I'd be sitting here on £180,000 for what? I can't downsize any more than a three-bedroomed bungalow…I can't understand why people want to sit on houses that are going down in value, you know, for the sake of, well, generally, it's for the sake of kids, isn't it?"* (Roy, age 75)
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> *"I'd looked into it very carefully and knew the risks, knew the constraints…and would I do it again? Yes, I would…because it's given me more flexibility. Even though I have a good pension, I've got rid of the mortgage and that was a loop around my neck…yes, it worked for me."* (Victor, age 75)

Equity release advice

The FCA's approach to regulating equity release products places an emphasis on information and personalised financial advice. Following the Mortgage Market Review, consumers cannot purchase an equity release product without receiving regulated financial advice (unless they are high net worth individuals or mortgage professionals). Our research indicated that advice does not always overcome information gaps, particularly for those we considered to be lower socio-economic status consumers. These participants typically reported that they were not very confident in dealing with financial matters, and were much less likely to have carried out their own research before seeing an adviser (compared to those who were more financially capable and better off). Confusion around the details of the plan and how it worked were also more apparent among these participants.

Betty was eager to take out equity release, and not at all anxious about doing so, since she had no other way of raising the money needed to help her pay for everyday living expenses. Reflecting on the advice that she received, Betty said:

"I can't say I understood all the intricacies, I understood what I was going to get. That was the main thing for me, understanding what I was going to get…in here I've got all the original work, the deeds, my solicitor's letter, the plan, the credit agreement, and all those things like underlease etc. I don't understand all that." (Betty, age 86)

This implies that the recent regulatory move towards mandatory financial advice will benefit some consumers more than others and those most in need of decision-making support may not be getting the type of protection they need.

Best laid plans

The Equity Release Council Code of Conduct states that customers have the right to move their plan to another suitable property without financial penalty. This is a particularly important safeguard since equity release products are long-term products, and it is very difficult for consumers to anticipate future changes in their needs and circumstances. Some participants had not been able to anticipate their future needs at the time of the transaction, particularly when releasing equity under pressure; others did not think to ask about the finer details of the portability terms and conditions, or had fallen victim to their provider 'shifting the gaol posts'. In either case, the outcome was the same: an inability to move to a property more suitable for their current needs and circumstances.

"We have had no problems [with the plan] *until we thought about moving into a retirement flat, especially for the elderly. The company has changed the goal posts slightly, putting sheltered homes in an unacceptable category…My wife is now disabled and cannot walk any distance due to back pain. I am now 84 and have Parkinson's. Now our only option is to down-size into a smaller property, two bedroom bungalow instead of our 4 bed one. This wouldn't solve our problems, might even make things worse having less facilities. Property prices have not recovered enough to even give us enough capital to purchase outright a retirement flat…So we are stuck."* (Jack, age 84)

Looking beyond information and advice as the core vehicles for consumer protection, our research raises questions about whether a more suitable form of protection lies in regulation for better product terms, to ensure that equity release products are fit for purpose in the long term.

Silence and Shame

A number of participants expressed feelings of discomfort surrounding their equity release debt, embedded, in part, through family and societal expectations of being mortgage/debt free in retirement. There was also a feeling that equity release debt was different from conventional ('acceptable') acquisition mortgage debt, so that participants were sometimes reluctant to let others know that they had taken out an equity release plan. In some cases, this led to a sense of shame.

"I don't actually let on I've taken it out, I think that's like saying you've got another mortgage again.…I didn't have a mortgage when I took out equity release. So I suppose in some ways I feel a bit ashamed…My aim was always not to have a mortgage when I retired." (Martha, age 74)

Almost everybody has a mortgage…And there's great rejoicing when older people clear off their mortgage…because it's so general, mortgages are acceptable conversation. But somehow, with equity release, it's, 'Oh, you poor thing. You know, you had to do this because you can't manage, you're so poor,'…And so there's a very slight stigma about it, unless you can make it abundantly clear it's purely because you intended going on a world cruise…But to actually go in for it because you won't otherwise be able to manage, that's rather looked down upon." (Gladys, age 81)

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