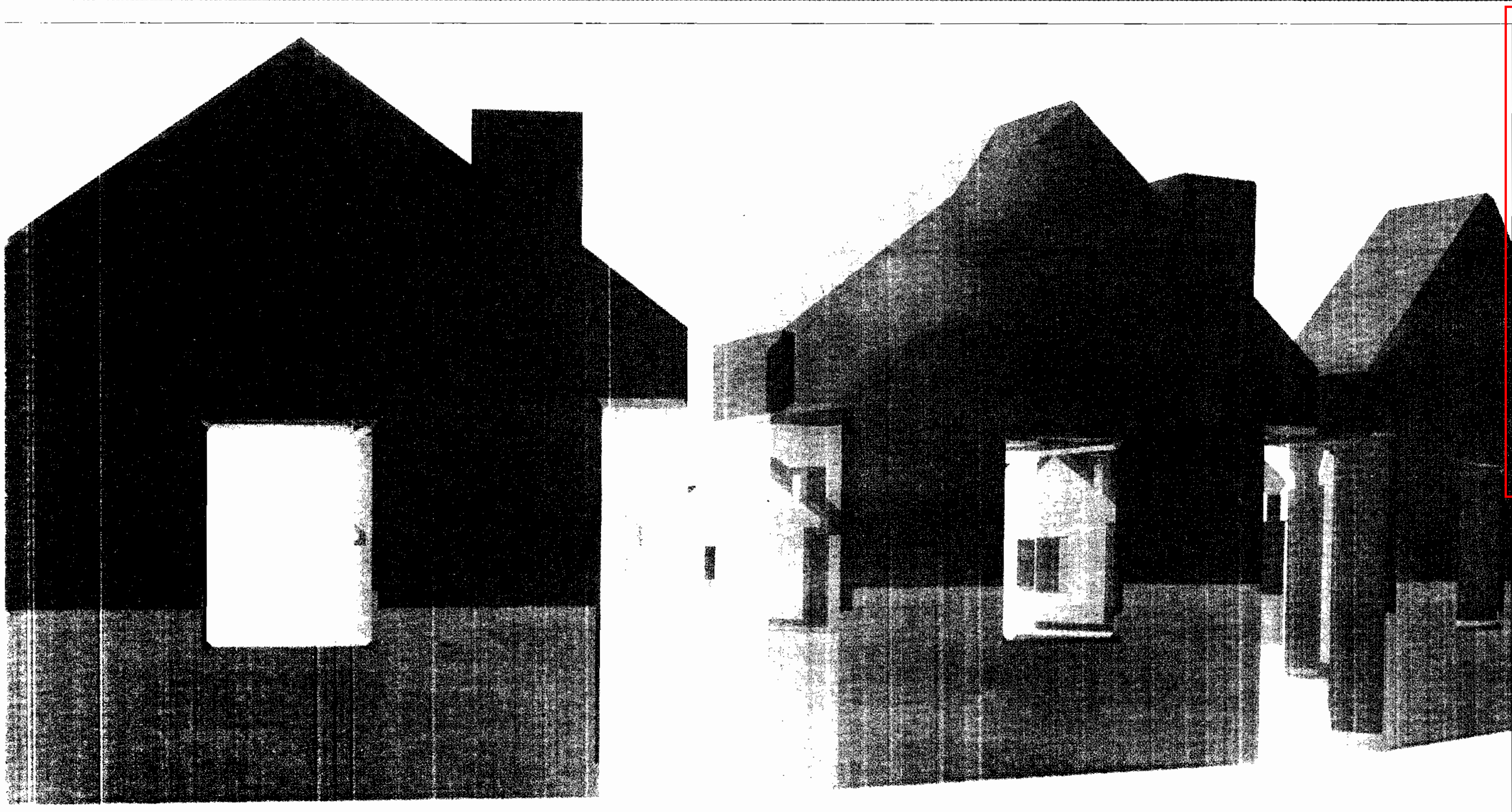


Our panel look at whether the economic downturn could bring more equity-release business

Release valve

Do you agree with the view of Which? that equity release should only be used as a last resort and that it is "very expensive, inflexible and leaves people with little or no equity in their home"? Do you think the view that Which? is promoting will put consumers off equity-release products?

Wright: Anyone considering equity release should be under no illusions that the product can be all the things claimed by Which? Only when in receipt of all the facts and, equally important, all the options, can consumers make informed decisions.

However, I do not agree that equity release should only be used as a last resort. For some people, this is certainly true but it is an inaccurate, sweeping statement to say this applies in every case. As with all products, their suitability has to be judged against individual circumstances.

Promoting one side of the message, even if the intention is to safeguard the reader, can be damaging as it can act as a disincentive to take independent advice and therefore reduces the consumer's ability to make an informed decision.

Hare-Scott: Which? have not done themselves any credit by letting their views on the subject be publicised in such an unconsidered manner.

There is no focus on consumer needs at a time when many elderly home-owners are particularly hard- pressed. There is also no recognition of the value and flexibility built into modern- day equity-release plans which make them fit for purpose for many situations, and certainly not as a last-resort option.

Which? are, however, correct in their recommendation that specialist advice should be taken before a plan is entered into. There are now many options and it is critical for homeowners to make the right choice.

Mirfin: Equity release is one option among many, not a last resort. What we promote is considering equity release alongside all other options, including downsizing, other forms of borrowing, for example, serviceable lending, using other funds or looking to the family for assistance.

Regarding cost and flexibility, plans are more flexible than ever and more competition has made the cost of borrowing much more competitive. The comments from Which? will not put consumers off and I believe it will encourage them to seek specialist advice more.

Has Prudential made the right move in reducing the maximum loan to value on its lump sum lifetime mortgage by 5 per cent in response to falling house prices? Do you believe the company's concerns about negative equity are justified?

Wright: I do not think this will make a difference to the equity-release market as this is just one feature of a product that is being changed. If reducing the loan to value ratio means that Prudential are able to continue offering a consistently competitive product range to the market, then I commend the decision.

Careless lending on all levels is at the route of all ills at present so this is probably Prudential ensuring its risk exposure will not be a future problem. However, I cannot believe that potential house price decreases have not already been factored in.

Hare-Scott: The no-negative-equity guarantee is one of the fundamental Ship safeguards established for the protection of consumers entering into equity-release transactions.

In a falling property market, lifetime mortgage providers will be concerned that one day, the property value might be insufficient to cover the loan and accrued interest. The Prudential higher-release plan was particularly vulnerable because of its unique inbuilt increasing loan to value formula. In the current economic climate and with house prices no longer a one-way bet, it is not surprising that the product has been withdrawn.

Mirfin: Prudential's recently announced reduction in their LTVs is a direct reflection on their attitude to lending and may reflect on their funding model.

Naturally, when property prices are falling, a provider may take a more cautious view. There is, however, a view that the risk of house price deflation begins at the point of inception. In other words, any falls of the past 12 months do not pose the risk to a loan advanced today. The risk on that loan starts today. To date, this is seen as an individual strategy view by Prudential on their lending.

Do you expect to see an increase in enquiries about equity release due to the economic downturn? Do you expect sales of equity-release products to go up over the next year or two?

Wright: I believe that once the effects of the economic downturn have a direct effect on the lives of people, this will increase their curiosity to learn more about this product.

I think that the uncertainty in the current climate is probably making more people consider taking out such a product and the challenge for the advisers and the industry as a whole is to ensure quality, unbiased advice is made available.

Hare-Scott: In a climate that has witnessed the withdrawal of an unprecedented number of standard mortgage products, the full range of lifetime mortgages and home-reversion plans are still available.

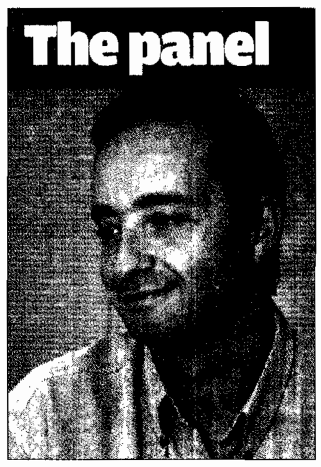
Assuming that this remains the case, the market will grow because the drivers in the sector are more powerful and relevant than ever – for example, pension shortfalls, debt carried into retirement, an ageing population and an increasing need to support the family.

The endless bad news in the media may have discouraged some of the aspirational or lifestyle consumers but this is most likely to be a postponement rather than a cancellation of their interest in equity release.

Mirfin: We question, post-completion, all our customers on the uses of the funds released. We are monitoring the trends to see if we see more of a shift towards either greater mortgage/debt repayment issues or increases in demand in the use of funds released to meet regular bills.

Through 2008 up to the end of the third quarter, we had seen no specific shift in these statistics but over the coming months it will be interesting to see if this does move in a different direction, especially as we are now entering the expensive winter months.

The panel



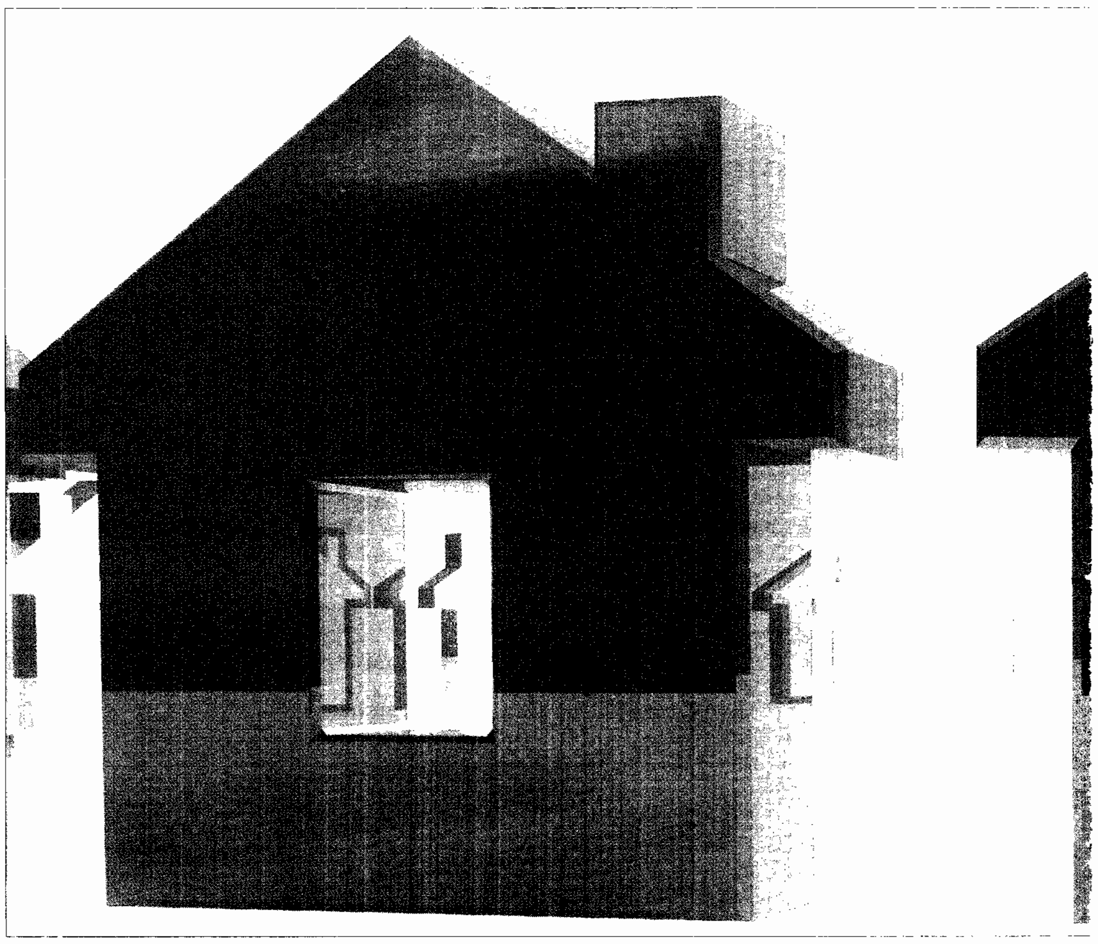
Peter Wright, financial adviser, CBK Colchester

Nigel Hare-Scott, managing director, Home & Capital Advisers

Dean Mirfin, business development director, Key Retirement Solutions

EQUITY-RELEASE SPECIAL REPORT

Two-page focus on equity release



The start of a journey

Claire Barker, a partner in equity-release law firm Equilaw, says equity release is not the last resort but can be just the beginning of a series of financial moves

The last resort" or "not repayable in your lifetime" and "lifetime mortgage", all of these terms or phrases have been used in connection with equity-release mortgages.

The latest Which? report rehashed the information from its last offering of several years ago, indicating that people should consider equity release only as the last resort and should really consider downsizing or borrowing from family members first.

But with recent product developments, is classing equity release as the end of the financial road really correct?

Equity release can be attractive to retired people who no longer have a significant income. Pension provision has dropped in recent years while house prices have risen exponentially. There are no repayments to make and the equity released can be used for any purpose, such as holidays, debt consolidation, home improvements or helping the family. The term, cash-poor and asset-rich, has been propounded throughout the media and suddenly the retired sector has looked to their property portfolio to climb out of the financial doldrums.

Equity-release products have never looked more innovative or attractive. The 22 members of Safe Home Income Plans work hard to ensure the market is driven by best advice and, above all, choice.

We have seen the emergence of drawdown products, protected equity, guaranteed further advances and even a product with no early repayment penalties.

Yet, with the myriad of products available, the first equity release is still viewed by many as the last loan that a client will ever take. Equity-release loans are also viewed as inflexible, long-term and expensive by those who have not kept up to date with the suite of products available.

The reality is that the population is getting older. Pensioners have often not made adequate provision for their lengthening retirement and as the baby-boomer generation finishes working, many are finding it difficult to fund their lifestyle or even to pay off their existing mortgage.

This generation is more comfortable with credit, will shop around on the internet and will generally investigate the options available before making any decisions. But consumer groups still treat them all as ignorant and/or vulnerable and suggest that they should sell and move into smaller properties. Alternative advice from such groups is to go, cap in hand, to the family.

Neither of these options is often attractive or even feasible, particularly in the current market, where residential property is not selling. Arrangements between family members can be fraught with difficulties and disputes. They need to be considered very carefully before being entered into. The same is true of equity release. These schemes are not right for everybody and advice is necessary from a suitably qualified financial adviser and from a legal expert.

However, when an equity-release plan is the right path, it need not be the last major financial decision that a client makes. For example, a couple in their early 60s may choose to take up a plan to consolidate their mortgage and possibly other debts. Later, perhaps in their 70s, they may decide to downsize or move to a more manageable property.

At this stage, if the equity-release plan has limited early repayment penalties (say, for the first five years), they might pay off the mortgage entirely from the proceeds of the sale.

Alternatively, they may port the existing mortgage to the new property or remortgage with a different provider, whether they move or not. They are now older, so will generally be able to release more cash than they could when they first took out a plan and may decide they want more money for lifestyle reasons.

It should also be noted that all Ship members guarantee the ability to move house under the terms of their schemes.

Different product providers have different offerings. For the first time in equity release, this year has seen the launch of a lifetime mortgage with no early repayment penalties at all. Clients were able to use this, perhaps for shorter-term funding while they were waiting for funds from an alternative source, such as an endowment policy payout or inheritance.

Other providers, while not taking such a radical route, have also created products with limited early repayment penalty periods.

In response to product innovation, more intermediaries are setting up dedicated rebroke teams to help with the fact that many clients have reached the end of their tie-in periods.

Client databases are a rich source of potential business during a period of economic downturn, being a free lead-generator.

Businesses should ensure that they gather and retain information about their clients, such as dates of birth, financial circumstances and overall needs.

A sweep of the database has a twofold benefit. If we are to treat customers fairly, then surely we have a duty to contact them at the point that they could get a better deal elsewhere. The adviser is also able to generate additional income without the need for expensive advertising.

Equity release is usually intended to be a long-term arrangement but, with the correct advice, the precise product to suit the individual client and his or her circumstances can be found and need not be the end of the client's financial journey.