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The Cost of Equity Release

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02 June 2017



Agenda

1. What is Equity Release?
2. The Cost of Equity Release
 - Property Risk
3. The Cost of Structuring
 - Early Repayment Risk
 - Long Term Liquidity Risk



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(1) What is Equity Release?

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Equity Release = Lifetime Mortgages?

- Equity Release is a means of obtaining money using the value of a property (or other asset), while retaining use of the property.
- Most people who take out Equity Release use a Lifetime Mortgage ("LTM").
- Lifetime mortgages are also known as Equity Release Mortgages or Roll-up Mortgages.
- Minimum age is 55.



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Lifetime Mortgage Providers

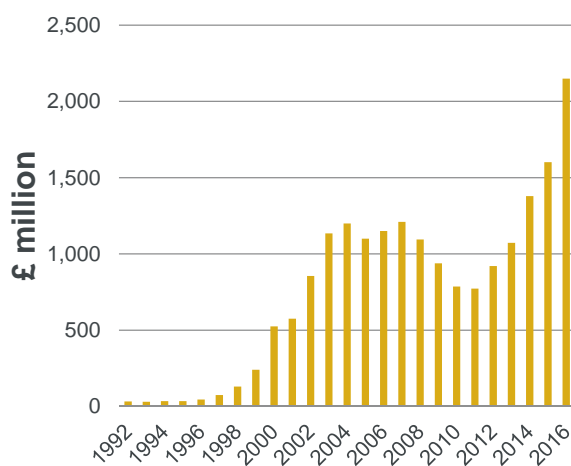


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Industry lifetime mortgage lending 1992 – 2016



Projected to grow:

- Favourable demographics
- Rising property wealth
- Insufficient pensions
- Retiring with debt
- Despite Pensions Freedoms

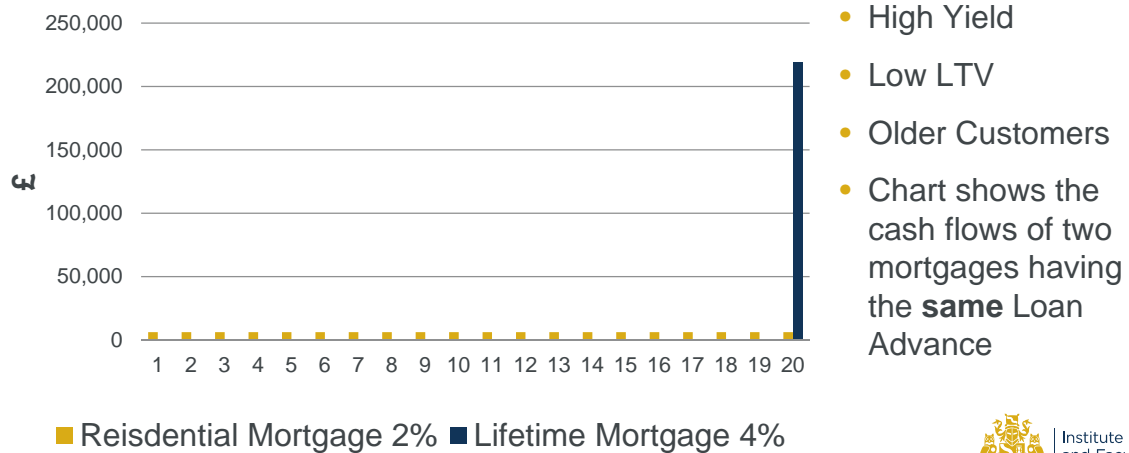


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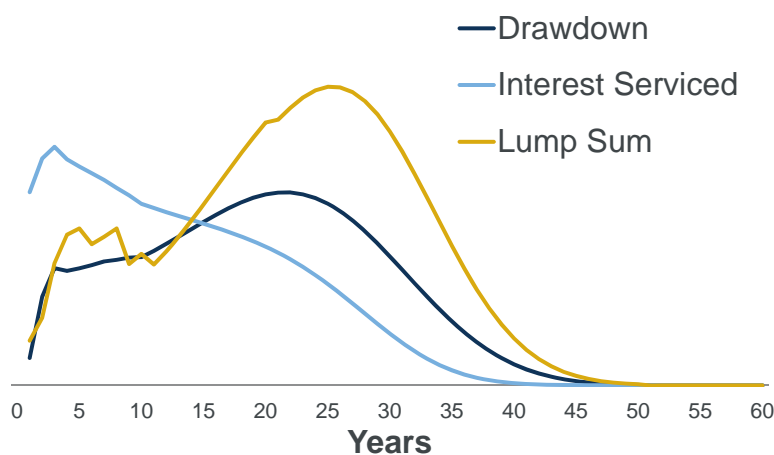
Characteristics of a Lifetime Mortgage



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Different Types of Lifetime Mortgages



- One Hump for Longevity
- One Hump for Early Voluntary Redemptions
- An Asset for Life Insurers



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(2) The Cost of Equity Release

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The Cost of Equity Release

As a % of Loan Advance, what is the capital requirement?

42%

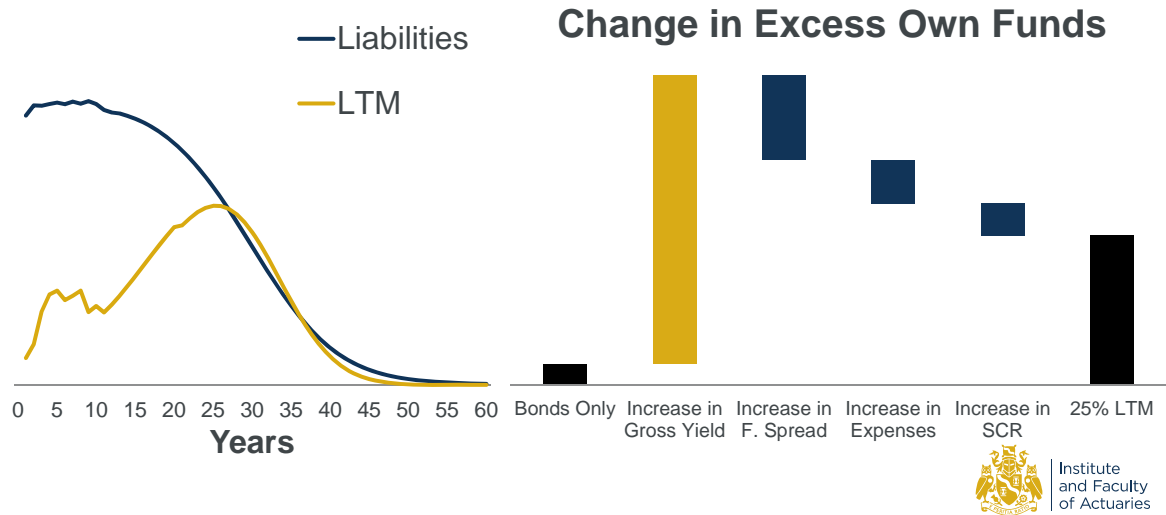


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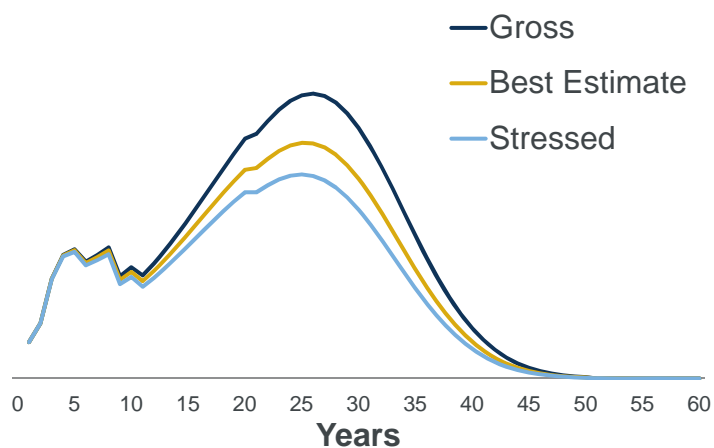
Costs – Up and Downs



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The Cost of the NNEG



Cash flows are based on varying assumptions for

- Property Growth
- Property Volatility
- Property Valuation

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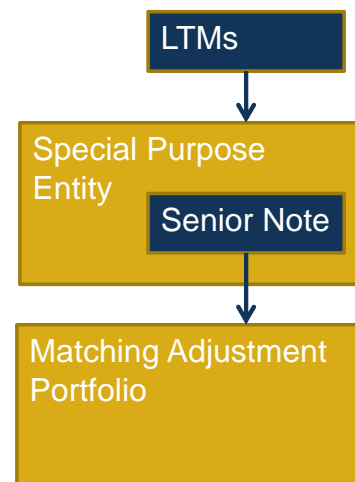
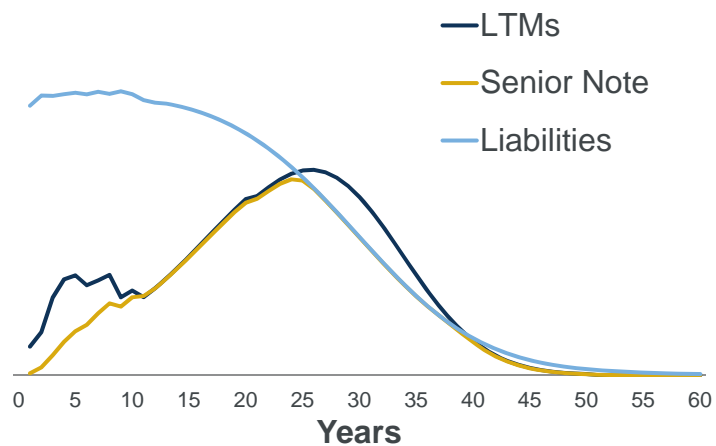


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(3) The Cost of Structuring

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An LTM Structure

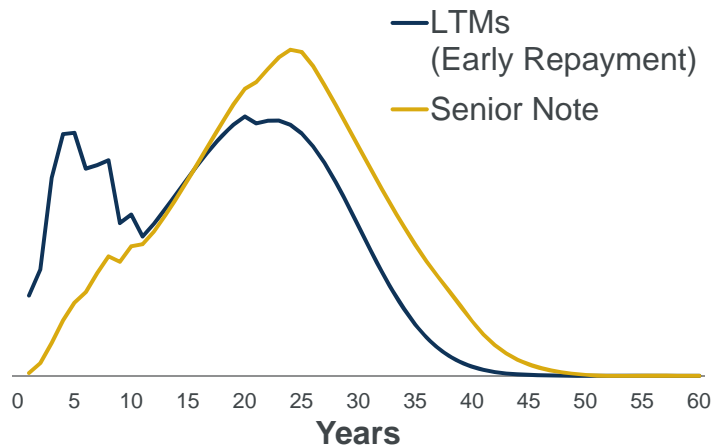


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The Cost of Early Repayments



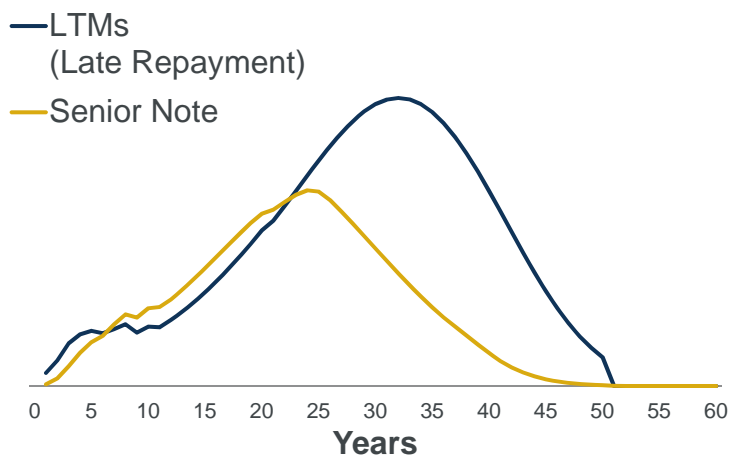
- Caused by Refinancing
- Reinvestment Risk
- “Capital” needs to be held in the SPE to guarantee payment of Senior Note



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The Cost of Late Repayments



- Caused by Longevity
- Liquidity Risk
- Liquidity needs to be available to the SPE to guarantee payment of Senior Note



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Questions?



Comments

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