

## **Gap between lifetime mortgage rates and long term fixed rate mortgages increases**

Analysis by Independent financial research company Defaqto shows that the average fixed rate charged for lifetime mortgages has increased when compared to its nearest analogous product in the residential mortgage market: the long term fixed rate mortgage.

David Black, Banking Specialist at Defaqto said: “The gap between interest rates charged by lifetime mortgages and long term fixed rate residential mortgages has widened considerably over the last two years. It is worth pointing out however, that the ‘no negative equity guarantee’ is responsible for an additional cost to equity release providers of around 0.7% per annum.”

Mr Black added: “A number of providers have exited the market over the past couple of years citing either funding constraints or more profitable opportunities in alternative product areas. Equity release has long been thought of as a sleeping giant but, given the perilous state of many people’s pensions, it can only be a matter of time before the two types of equity release schemes - lifetime mortgages and home reversions - become a more integral part of retirement planning.”

He concluded: “The equity release business model clearly favours providers who also sell annuities, but the industry in general faces a number of pressing issues if it is to grow. These include: funding constraints need to be remedied; competition needs to increase along with the entry of more ‘household name’ providers and consumer confidence in the product needs to be reinforced. Increased competition should result in a narrowing of the interest rate gap between lifetime mortgages and long term fixed rate residential mortgages.”

The following table compares the average fixed rate charged by long term fixed rate residential mortgages and interest roll-up fixed rate lifetime mortgages over the last few years:

Date	Average fixed interest rate charged by interest-roll up lifetime mortgages	Average interest rate charged by residential mortgage with fixed rates of 10 years or longer	Differential
August 2010	7.17%	5.72%	1.45%
August 2009	6.94%	6.21%	0.73%
August 2008	6.88%	6.57%	0.31%
August 2007	7.06%	6.43%	0.63%

-Ends-

### **Notes to Editors:**

David Black is a Banking Specialist at Defaqto

David joined Defaqto in May 2004 when Defaqto acquired the financial research company of Blay's Guides where he had 16 years of banking research experience for the majority of which he was a director. Previously he was a political risk underwriter in the City. David is Defaqto's Banking Specialist and specialises in credit cards, current accounts, equity release, mortgages, savings and unsecured

loans. He was the Banking Analyst in Defaqto's Insight team until July 2009 when he switched to dealing with the press on all aspects of banking. He is a frequent commentator in both the printed and the broadcast media in his areas of expertise. He is ACII, CeMAP and CeRER qualified, as well as holding an Honours degree from Exeter University.

**For further information contact:**

David Black  
Banking Specialist  
01844 295 535  
[mediaenquiries@defaqto.com](mailto:mediaenquiries@defaqto.com)

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