Longer mortgage terms becoming commonplace, brokers say

Brokers discussed the pros and cons of longer term mortgages.

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PR platform, Newspage, asked brokers if they are seeing growing demand for longer term mortgages due to affordability reasons and as people seek to mitigate higher mortgage rates.

"With lenders now willing to offer mortgages to borrowers well into their golden years, it shouldn't come as a surprise that terms of 30-40 years are becoming commonplace."

One said "30-40 year mortgage terms are becoming commonplace", while another added that "35 has become the new 25".

Here are their full responses:

Bob Singh, founder at Chess Mortgages: "With lenders now willing to offer mortgages to borrowers well into their golden years, it shouldn't come as a surprise that terms of 30-40 years are becoming commonplace. It's more to do with necessity than desire and borrowers must understand that having a mortgage for a longer term will mean more interest is paid. With high interest rates and eye-watering living costs, lender affordability calculations are driving borrowers to take longer term mortgages. Most lenders will lend to the age of 70 and, if there is sufficient post-retirement income, then mortgages up to age 95 are available. It's not just longer term mortgages that are becoming more common to lower the monthly costs but also interest-only mortgages. These provide lower monthly payments to ease affordability and offer the ability to overpay as and when possible within certain annual limits."

Adam Smith, founder at Alfa Mortgages: "We've been seeing a shift in the mortgage landscape lately. More and more clients are opting for longer 35 to 40 year mortgage terms to make homeownership more affordable. It's not just first-time buyers, either. Even those who are already on the property ladder are taking advantage of this option. The focus is on finding that perfect home, and people are willing to pay a little extra interest to make that happen. In fact, I predict that this will soon become the new normal in the housing market."

Jamie Alexander, mortgage director at Alexander Southwell Mortgage Services: "The longer the mortgage, the more interest you'll pay over that term so we try to avoid offering longer term mortgages as much as we can. However, extended mortgage terms have definitely become more commonplace, especially for first-time buyers who may not be able to afford the mortgage otherwise. Although longer terms come with lower monthly payments, they result in significantly higher interest payments in the long run. The high cost of housing is the root cause of this trend. Lengthening mortgage terms is merely a manifestation of this issue, highlighting the need for either housing prices to decrease or salaries to increase."

Chris Sykes, senior mortgage adviser at Private Finance: "35-40 year mortgages are often used to eke out that little bit of extra affordability, whether this is needing to borrow more or to fit within a person's stated budget. Often this is done as a cash flow exercise and usually borrowers wouldn't intend to actually keep the mortgage for this period of time, hoping to do overpayments to clear the debt faster, but whether these materialise is another matter. The longer the mortgage, the more interest you'll pay over the term so careful consideration should be taken around the term you take. For example, if you are just salaried, with no variable components to income, it might be better to take as short a term as possible. Equally, if heavy commission is payable but the mortgage payable is on your base salary, and you are intending to overpay with commission, perhaps a longer term may work well, potentially integrating some interest-only."

Gareth Davies, director at South Coast Mortgage Services: "With house prices as high as they are, often first-time buyers have no choice but to take a longer mortgage term than their parents would have. We often hear the 'my Mum/Dad said that we should take a 25-year mortgage because that's what they did' line. However, given the current costs involved with homeownership, it is rare for the mortgage to be affordable on reduced terms. This is especially the case if the client is in the infancy of their career and yet to hit the peak of their expected income levels. I also suspect that if lenders at the time actually allowed the parents to take a term of over 25 years, many would have. A good adviser will try and get a plan in place that will allow people to either overpay to save interest, or structure things in a way that they can reduce the term in the future at a more appropriate time for them."

Rohit Kohli, operations director at The Mortgage Stop: "We've certainly seen more clients, of all types but particularly younger first-time buyers, wanting to keep the monthly payments as low as possible and longer-term mortgages are one way of achieving it. Since the interest rate rises, mortgage payments have become a larger percentage of people's outgoings so it was inevitable that people would want to extend their terms. However, we have to make sure our clients understand that this means that their mortgage is much more expensive and we encourage and work with them to pull together a strategy to reduce the term, such as an overpayment plan, and to review their mortgage regularly as their salary increases."

Gary Bush, financial adviser at MortgageShop.com: "Longer-term mortgages, up to 35 years, have been popular with mortgage applicants since before rising interest rates. This is due to the inflating price of properties over the past decade. It is true that longer term mortgages are even more popular now due to rate increases, with some younger borrowers pushing for 40-year terms. In our opinion this isn't a major worry as often younger borrowers' salaries over the next decade skyrocket, enabling us to revisit both the fixed rate term they are on and look to decrease the overall term of years for their borrowing at least a couple of times in reviews to readjust and save on interest charges where applicable."

Ross McMillan, owner and mortgage adviser at Blue Fish Mortgage Solutions: "35 has become the new 25 as the term of choice for the majority of first-time buyers and many others in today's market. With affordability a key component in lender decisions and borrowers often keen to maximise what they can borrow, the opportunity to now have an overall term beyond the "traditional" 25-year term is often grasped. In practice, most homebuyers, regardless of the stage on their property journey they are at, are primarily concerned with obtaining comfortably affordable initial monthly payments rather than minimising the overall mortgage term and associated interest in return for a more arduous monthly payment. With lenders offering, in most instances, at least a 10% overpayment allowance, many borrowers feel much happier to maximise the overall term initially but have the flexibility and power to have a degree of control to reduce this on their terms by taking the opportunity to overpay whenever possible."

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