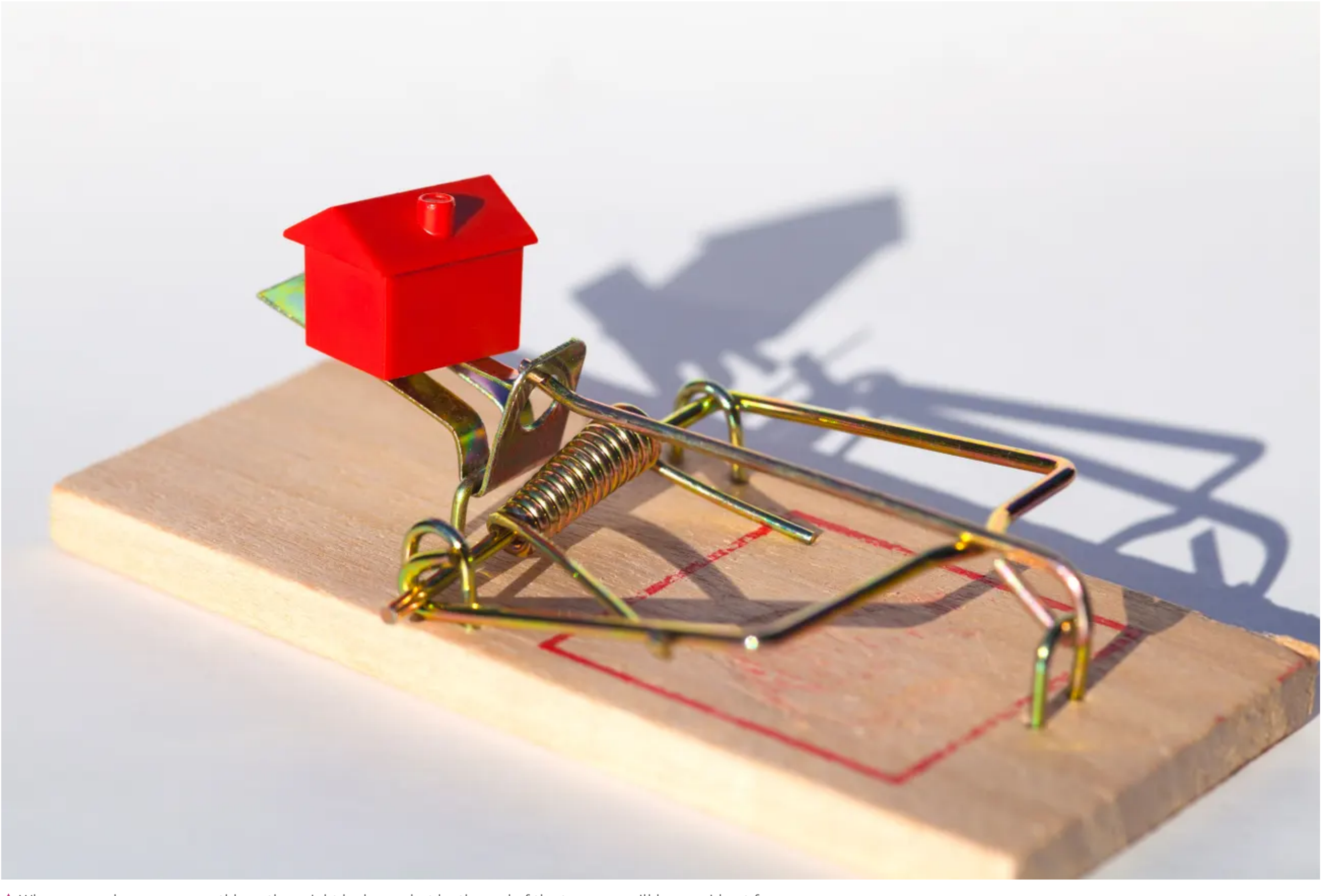
Mortgages

Goodbye 25-year mortgages, but are we walking into a borrowing trap?

Rupert Jones
Sat 29 Jul 2017 02.00 EDT

115 219



▲ When you go long, your monthly outlay might be lower, but by the end of the term you will have paid out far more. Photograph: Alamy

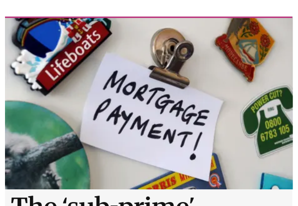
Taking out a deal lasting 35 years or more is becoming standard among younger buyers

One in six borrowers is taking out a mortgage lasting 35 years or more, official figures show – meaning many will still be paying off their loans well into their 70s.

The data prompted one leading broker to declare that the traditional 25-year mortgage is "a thing of the past", particularly when it comes to first-time buyers. But what are the pros and cons of opting to "go long"? Is it wise to saddle yourself with a major debt that you might still be paying off long after you have started collecting your pension?

The Bank of England has disclosed that during the first three months of this year, 15.75% of all new mortgages taken out were for terms of 35 years or more. While this is down slightly on the high of 16.36% recorded at the end of 2016, the trend in recent years has been relentlessly upwards – in mid-2005 it was just 2.7%. Similarly, the proportion of new mortgages lasting for between 30 and 35 years has also surged, from less than 8% in 2005 to just shy of 20% now.

It comes amid fresh warnings from the Bank of England this week about the dangers of reckless lending and surging consumer debt.



The 'sub-prime' market is back in business
Read more

With high house prices, escalating student debts and a rise in the age at which couples have children, many people are tending to buy a home later and opting for a longer repayment term. And the big plus point of this is lower bills: stretching the term reduces the monthly payments, which can seem very attractive. For example, Halifax says someone who takes out one of its mortgages to buy a £200,000 house could expect to pay from £809 a month if they go for a 25-year term. But that falls to a much more affordable £596 a month if they agree to sign up to a 40-year term. This is based on a first-time buyer taking out a £180,000 mortgage (ie, putting down a 10% deposit).

But there's a sizeable catch. When you go long on your mortgage your monthly outlay might be lower, but by the time you get to the end of the term you will have paid out far more – probably tens of thousands more – than if you had opted for the standard 25 years. As the table shows, you would pay almost £33,000 more interest – ie, £81,643 instead of £48,882 – if you went for a 40-year term rather than 25, based on a £180,000 repayment mortgage at 2%.

David Hollingworth at mortgage broker London & Country says many lenders will let people take out a 35-year mortgage, and a fair few – including the Halifax, Nationwide and the Newcastle, Leeds and Hanley Economic building societies – will go up to 40.

Is longer really better?

Based on a £180,000 repayment mortgage at a rate of 2%

Term in years	Monthly payment	Total interest
25	£762.94	£48,882
30	£665.32	£59,515
35	£596.27	£70,433
40	£545.09	£81,643

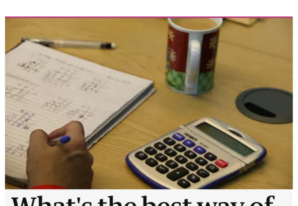
SOURCE: LONDON & COUNTRY

At the same time, some lenders have extended their maximum age for a borrower at the end of the term, making it easier for many people to stretch their loan. The Halifax's maximum age is 80, for example, while the Family building society will let a 42-year-old take out a 40-year mortgage, or a 53-year-old take out a 30-year one.

Hollingworth says someone might go for a longer term because they like the idea of having a bit more slack in their monthly budget, but adds: "It's probably wise for people to keep it under review." After a couple of years you may want to consider shortening the mortgage term if your finances will allow it. Alternatively, a borrower in this situation could consider making overpayments to reduce what they owe. Most deals will allow some form of penalty-free overpayment.

Another reason why longer-term deals have taken off is because of the tightening of the rules around interest-only deals, which are much harder for first-time buyers to access, says Hollingworth. He adds that, overall, this is probably a good thing as it is better to do a 35-year repayment mortgage than interest-only with no repayment vehicle in place. With the former, "even if you never pull the term back down you are at least paying off the mortgage," says Hollingworth.

Jonathan Harris at mortgage broker Anderson Harris says: "The typical 25-year mortgage term is a thing of the past, particularly when it comes to first-time buyers, owing to tougher affordability criteria. However, most lenders still require mortgages to be paid off by retirement, which does put a limit on the length of the term."



What's the best way of paying off my interest-only mortgage?
Read more

He says most lenders will allow 35 years. "We very rarely do a 25-year mortgage, with most clients opting for longer terms – and we would advise them to do so. Most products come with an overpayment facility of 10% per annum, so it may be sensible to take the longer term and then use the overpayment to reduce the loan faster. This way they are not contractually obligated to meet the payment schedule of a 25-year term."

While taking out a longer-term mortgage might be the only way you can afford to get on to the property ladder, it's worth considering whether this is the best option. David Blake at Which? Mortgage Advisers said this week that deciding the length of your mortgage term is a case of "balancing speed of repayment with affordability of repayment".

Topics
Mortgages
Property / Borrowing & debt / features

Reuse this content

Advertisement
A quick little survey.
1 Which of the following domain registration services have you heard of? (Select all that apply)
Tucows
Google Domains
GoDaddy
Namecheap
Bluehost
None of the above
Next
SCRUTINEER Click here to see how we use your answers

most viewed in US
Trump threatens Comey with 'years in jail' over FBI Russia report
Greta Thunberg in first-class Twitter spat with German rail firm
Donald Trump fears only one Democrat: Warren Sanders Robert Reich
Boris Johnson threatens BBC with two-pronged attack
Trump impeachment: Democrats fume as Republicans rally behind president

Promoted links from around the web
Recommended by Outbrain
About this Content
She hasn't been allowed to do these 50 things since she became a Royal — MARIE CLAIRE
[Pics] Couple Makes a Bet: No Eating out, No Cheat Meals, No Alcohol. 1 Year After, — ICE POP
How people in other countries spot American tourists. — ALOT TRAVEL
20 Of The Worst Muscle Cars Ever Created — BRAKE FOR IT
One Thing All Cheaters Have In Common, Brace Yourself — WWW.PEOPLEWHIZ.COM
The New Toyota Tacoma Is Simply Astonishing! — TOYOTA TACOMA | SEARCH ADS
Former Fox News Host Is Back In A Big Way. What's His Goal? Watch Now. — THE GREAT AMERICAN WEALTH PROJECT
These 20 Photos Show the Harsh Conditions of the Civil War — STANDARD NEWS
Outbrain
About this Content

comments (219)

Sign in or create your Guardian account to join the discussion.

Order by Oldest | Threads Collapsed | 1 2 3

TheGreatRonRafferty 29 Jul 2017 2:15 — 18
Debt. Those student loans get folk used to being in debt as a way of life.

Basically the same folk will have a mortgage, almost regardless. This is just a way of milking more from them.

Share | Report

Lee_Smith → TheGreatRonRafferty 29 Jul 2017 3:35 — 8
Student loan "debt" is nothing like mortgage debt. Other than if you leave the country, student debt is simply an additional tax band. You can't lose your home, the bailiffs won't be coming round.

Share | Report

Sunday1Morning → Lee_Smith 29 Jul 2017 4:56 — 6
Yet.

The conditions of the Student Loans contracts seem to be written in ever shifting sand that gets changed every time the loan book gets sold on.

Share | Report

+ Show 1 more reply

CapWhite 29 Jul 2017 2:17 — 1
There is not a problem with a long mortgage provided the rates are sensible, the problem is if you have a low deposit AND and long mortgage....its financial suicide

Share | Report

freelancelawrence → CapWhite 29 Jul 2017 2:21 — 13
The bigger problem is a long mortgage, a mountain of consumer debt and no retirement savings.

Share | Report

baldycoco → freelancelawrence 29 Jul 2017 4:53 — 9
The bigger problem is people of working and child bearing age being unable to afford to live, eat, save for the future and house themselves and their families all at the same time.

Share | Report

+ Show 1 more reply

+ View more comments

Most popular

© 2019 Guardian News & Media Limited or its affiliated companies. All rights reserved.