Can I get a mortgage at my age?

Consumer information guide

Building Societies Association


WELCOME

Contents

If you are in your forties, fifties or older you may have heard or read stories that getting a mortgage becomes much more difficult with age.

Introduction

It is not 'impossible' for older borrowers to get mortgage finance, but you could be forgiven for thinking so. This leaflet looks to dispel the myths with facts and provide sources for additional information, whether you are looking to borrow from a building society or other mainstream lenders.

This guide aims to provide clear information about borrowing into and in retirement, the things your lender may look at when you apply, and some top tips to improve your chances of getting a mortgage.

Taking out a mortgage is clearly a significant financial commitment. Before starting you should be comfortable that you will be able to afford the repayments for the whole of the mortgage term. Your home may be repossessed if you do not keep up repayments on your mortgage.

It is worth thinking through what your income will be when you retire, whether you have plans to take cash out of your pension pot, or how your spouse/partner would repay the loan if something unfortunate were to happen. Your mortgage advisor will talk this through with you but it helps to be prepared.

The last thing your lender wants is for you or your family to experience financial difficulty because you have taken out a mortgage.

Nothing in this guide constitutes regulated mortgage advice and you should speak to your building society or take professional financial advice for more information.

Background

It is becoming more and more common for people to take out a mortgage with a term that lasts into their sixties, seventies or eighties. The reasons why vary, but could include:

- Higher house prices, so it takes longer to repay the mortgage. Someone in their 40s borrowing for 30 years will be in their 70s by the time the mortgage is repaid.
- Buying a home for retirement close to family and friends or vital amenities. For some people this may mean buying in a more expensive part of the country which might require a mortgage.
- A divorcee needing a mortgage to buy a home of their own.
- People returning from living overseas, wanting to own a home in the UK rather than renting long-term.
- Parents, or grandparents, releasing equity from their property to help children or grandchildren onto the housing ladder. The so-called 'bank of mum and dad'.

Many people may also want to unlock equity from their home during retirement to:

- Make home adaptations, to improve accessibility or make it better suited to their needs.
- Fund social care.
- Spend on 'big ticket' items like a holiday.

These are, of course, just some reasons why you might need a mortgage. Your mortgage advisor will talk to you in more detail about your specific needs and circumstances, and what your options are.

Am I going to need a mortgage into retirement?

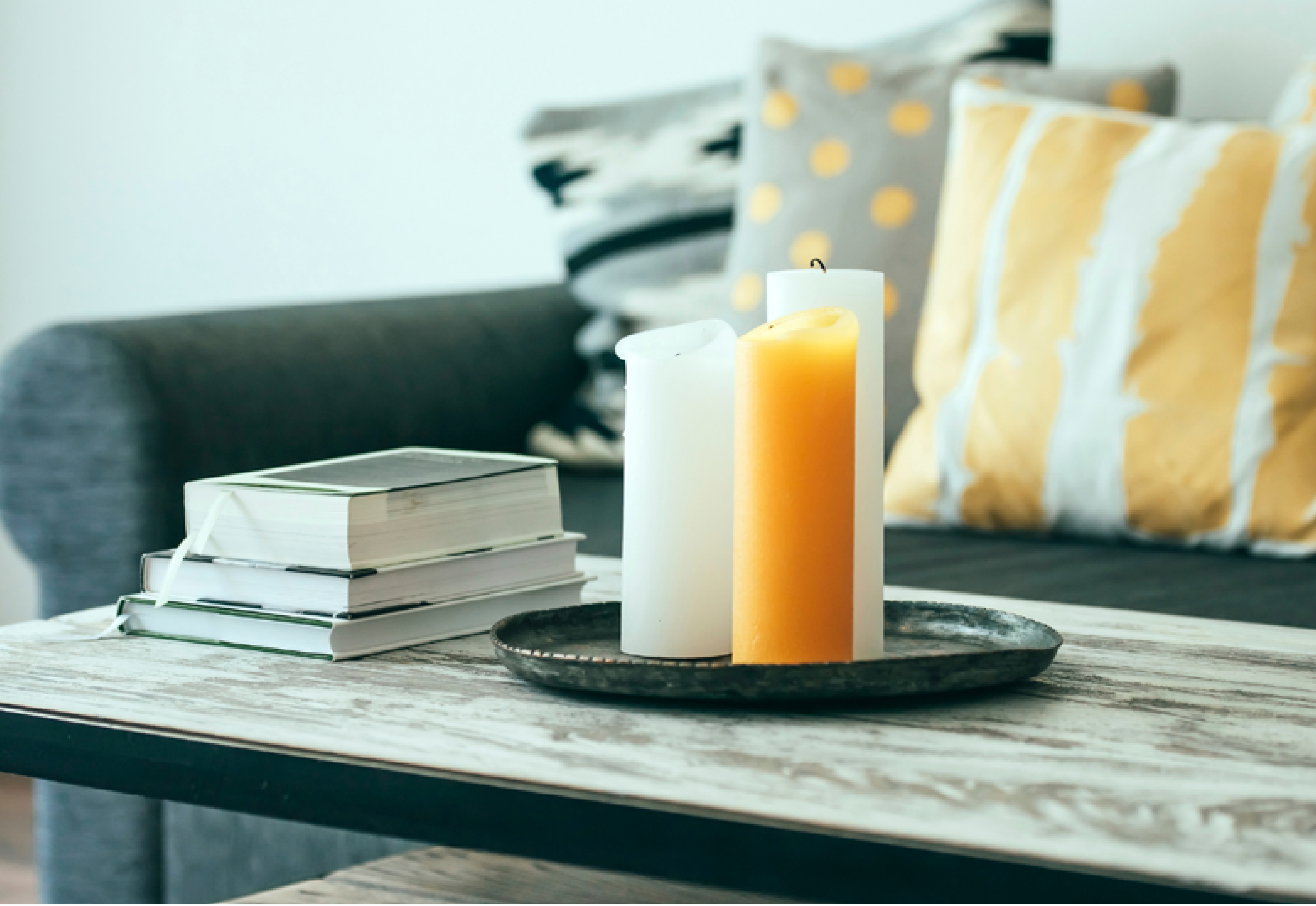
There are a number of factors which will contribute to your decision whether to borrow into or in retirement. The amount you want to borrow, the length of the mortgage term, the size of your deposit, and how much you can afford to pay each month on an ongoing basis are all important factors to consider.

Of course, much depends on the age at which you plan to retire. You may, or may not, choose to retire at the state pension age or earlier. As the UK no longer has a default retirement age this decision is usually yours[1].

You might even start to draw a pension while continuing to work. Many people see retirement as a process, rather than an event, and might work a couple of days a week, take up directorships or contract work to supplement pension income.

However, one thing to remember is that if your work is manual and physically demanding then many lenders are likely to be more cautious if you choose a late retirement age. This is because your ability to continue doing manual work may decrease with age.

1 If your employer does have a compulsory retirement age in place – for example the police or fire services – then it must be objectively justified



Affordability

If this is the first time you have taken out a mortgage, then it is important to understand what your lender looks at when deciding whether to lend to you, and how much. There are many first-time buyer guides available to walk you through the mortgage process, which you can read together with this one.

Even if you have taken out a mortgage before, the rules set down for mortgage lenders to follow may have changed since the last time. There may be some new things to consider – these are outlined below.

Essentially your lender wants to try to ensure, as far as possible, that you can afford to repay your mortgage. For most people your monthly mortgage repayments will include the amount that is lent to you (the capital) and any interest which accrues.

To work out what you can afford to repay each month your lender needs information about your monthly income and expenditure, as well as your credit history.

Income

Your lender will look at your salary, wages, or any other regular income you have, after income tax and national insurance deductions have been made.

If you are self-employed then your lender may look at your business accounts to check for a track record of profitability. They may also consider looking at projections of future income, where these form part of a credible business plan.

If you are a contract worker then your lender will likely want to know about the length and terms of your contract as well as the sustainability of any income, especially if the number of hours you work changes from week to week. If you are planning to borrow beyond your retirement age then your lender will also want to know about your pension, as once you retire you will likely be making mortgage repayments out of your pension income each month.

The way your lender looks at your pension will change depending on how far away from retirement you are and what type of pension scheme you have. There will be more on this in later sections.

Expenditure

Your lender must also look at how much money you spend each month. To do this they look at three things:

- *Committed expenditure* – Any credit and other contractual commitments you have, which will not be repaid in full when the mortgage is taken out
- *Basic essential expenditure* – Spending on food, gas, electricity, water, telephone bill, council tax, buildings insurance, essential travel expenses and any ground rent or services charges you pay
- *Basic quality-of-living costs* – Spending which can be reduced but only with difficulty, such as clothing, household goods and repairs, toiletries, television, childcare and money for some basic recreational activities

Once this spending has been taken into account your lender will look at how much money you have left to pay for a mortgage.

Top tips for taking control of your spending

There is a wealth of information out there on ways you can save money. However, some overarching things we would suggest are:

Budgeting in advance of your mortgage interview and sticking to it. If you can show a track record of controlled spending your application is more likely to be successful.

Prioritising any luxuries. Do you get more enjoyment from holidays or eating out regularly? Spend your money there and cut out others.

Reducing your spend on non-essentials like eating out for lunch, the morning coffee or morning newspaper. Small amounts start to add up.

Comparing your energy and water tariffs and any other bills. Consider installing energy and water saving devices.

Credit history

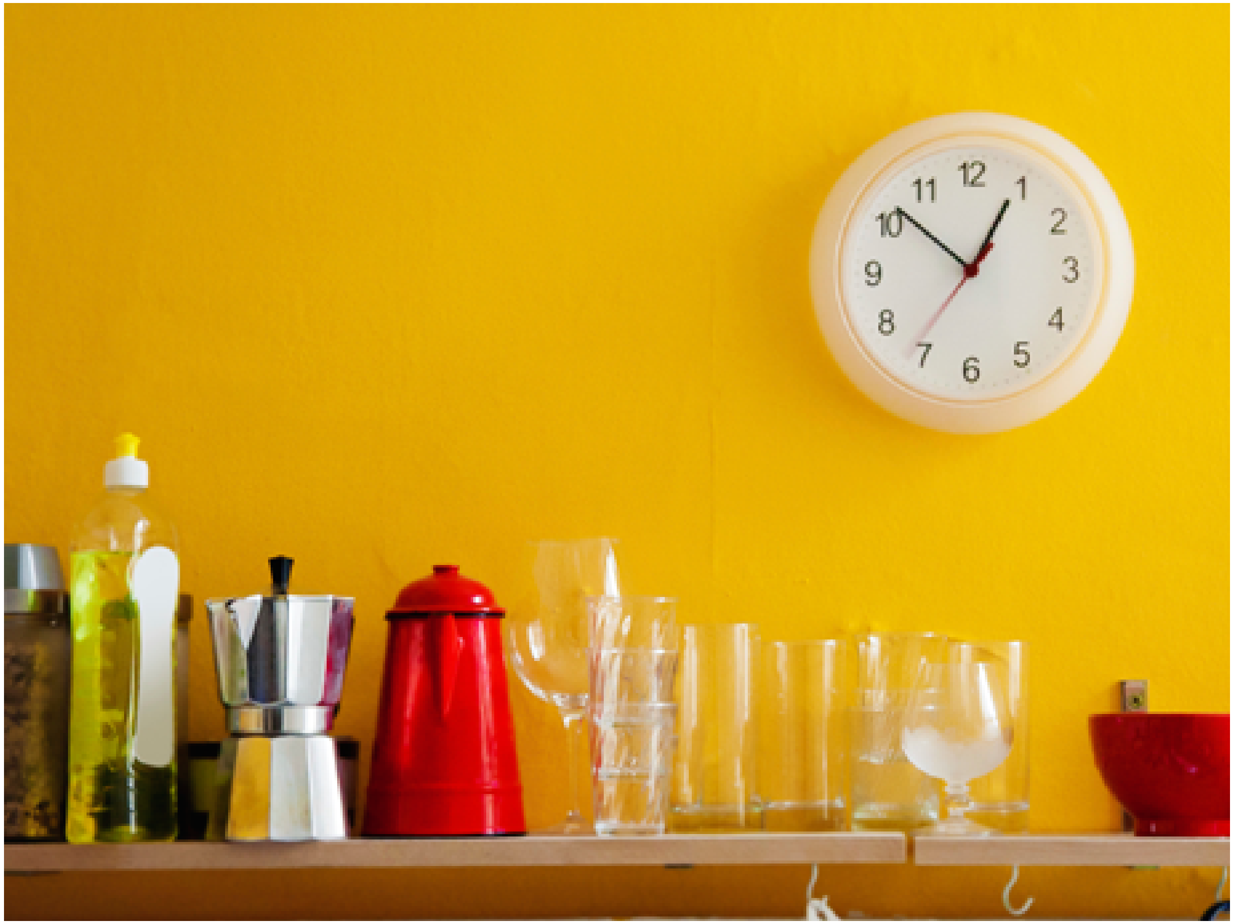
Your credit rating is influenced by a range of factors. Any time you take out a new credit card, personal loan, or agree an overdraft for your bank account your credit rating will be checked.

The information that comes back will be based on whether you've paid bills on time, any lease agreements you have in place – for example to pay off instalments to buy a car or mobile phone – and your address history.

Your lender will use your credit rating to inform their lending decision, based on how much of a risk it is lending to you.

Lenders with more automated processes will tend to use credit scoring. This will use your credit rating to give you a score within a range. If you score poorly this could lead to an automatic rejection for a mortgage.

Other lenders will not be so determined by your credit rating. They will still consult your credit rating and take it into account but may allow you to explain certain entries on your file during the mortgage advice process.



Top tips to improve your credit rating

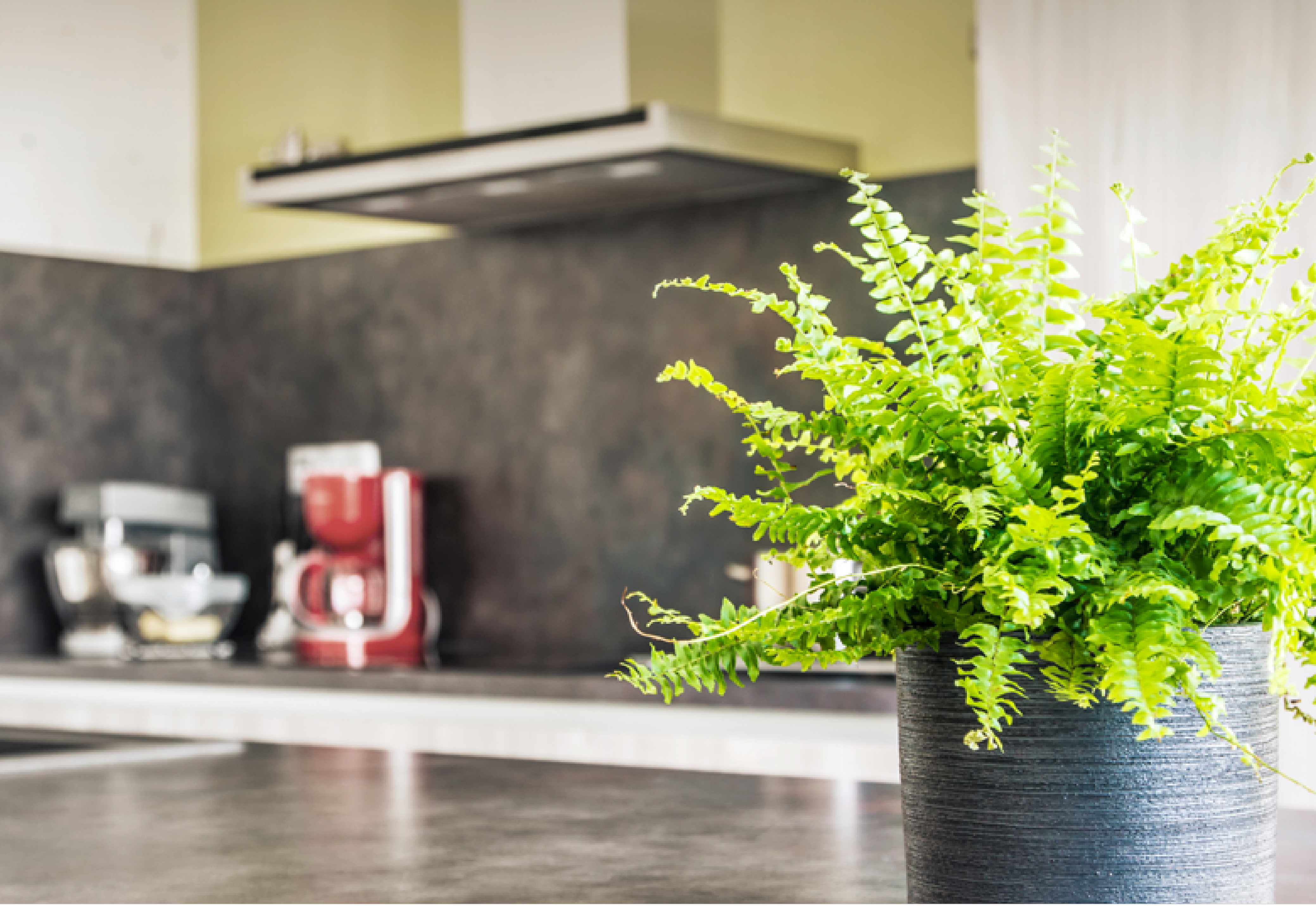
We cannot guarantee that taking any of these steps can ‘fix’ your credit rating but it is worth considering:

It is important to pay your bills on time. This goes for credit cards as well as for bills or any other money you owe. If you cannot pay on time, then approach your creditor. They are likely to have a range of ‘forbearance’ options which they can discuss with you.

Do not let any money you owe get to the stage of going to court. By engaging with your creditor early and honestly this is unlikely to happen, at least in the short-term. If you ignore the situation and a court judges against you, this will seriously hamper your ability to get credit in future.

Keep address information up-to-date and register for the electoral roll. While your credit rating is matched to you as a person rather than your address, the rating agencies use your address information to maintain information on the file. Registering on the electoral roll provides a public record of you living at your address.

Request to see your credit file. If there is information on there you think is misleading, then you can add a ‘notice of correction’. This is a short explanatory statement providing context. For example, if an ex-partner incurred debt on a joint account.



What your lender is looking at

As with any other mortgage, your lender has to take steps to check how much you can afford to repay each month. They will interview you and look at your income and expenditure and other information.

When expenditure is taken away from your net income this gives an idea of the absolute maximum amount you might be able to afford.

You can choose to make repayments close to this maximum amount, accounting for a sufficient buffer in the event that interest rates increase, and repay your mortgage over a shorter term. However, this will have consequences and you may only be able to keep up a basic quality of living.

Alternatively, you can make smaller repayments each month over a longer period of time.

There are some other important things your lender will consider:

- Loan-to-value ratio – This means the amount that your lender is willing to advance as a proportion of the value of the home you want to buy. If you have a large deposit, then this will bring down the loan-to-value ratio and potentially increase your chances of getting a mortgage.
- Interest rates – Your lender will charge an initial rate of interest on your mortgage. This could be fixed for a number of years: fixing for 2 to 5 years is common.

  However, your interest rate could also be variable. This means that if the interest were to go up, you will have to pay more each month.

  Therefore, your lender will 'stress test' the affordability of your mortgage. This is to see ensure that you will still be able to afford the mortgage repayments if the interest rate increases.

If you are close to retirement age, then your lender may choose to stress test the interest at an even higher rate. This is to take account of the possibility that you may find it more difficult to raise extra income to cover any higher repayments once you are retired.

Pension income

If you expect to be making mortgage repayments after you have retired or started drawing a pension, then your lender will want to assess what your income might be beyond that date.

The way your lender assesses whether you will be able to afford to make repayments in retirement depends in large part on how close you are to drawing on your pension.

If there are still a number of decades before you draw a pension, then it is impossible to know how large your pension pot is going to be. If you are on a Defined Contribution pension scheme, then the size of the pot depends on how much you pay in and how your investments perform. Your lender might be satisfied simply by checking that you are making regular monthly payments into the pot or by looking at your latest pension forecast.

If you are on a Defined Benefit pension scheme, then much is determined by whether it is based on your final salary or career average.

However, if you are closer to retirement age – say, within ten years – then your lender is going to want to see more robust evidence of what your pension is going to be. They might ask to see documents such as your annual pension statement to get an idea of what your income is likely to be in retirement.

Maximum age limits

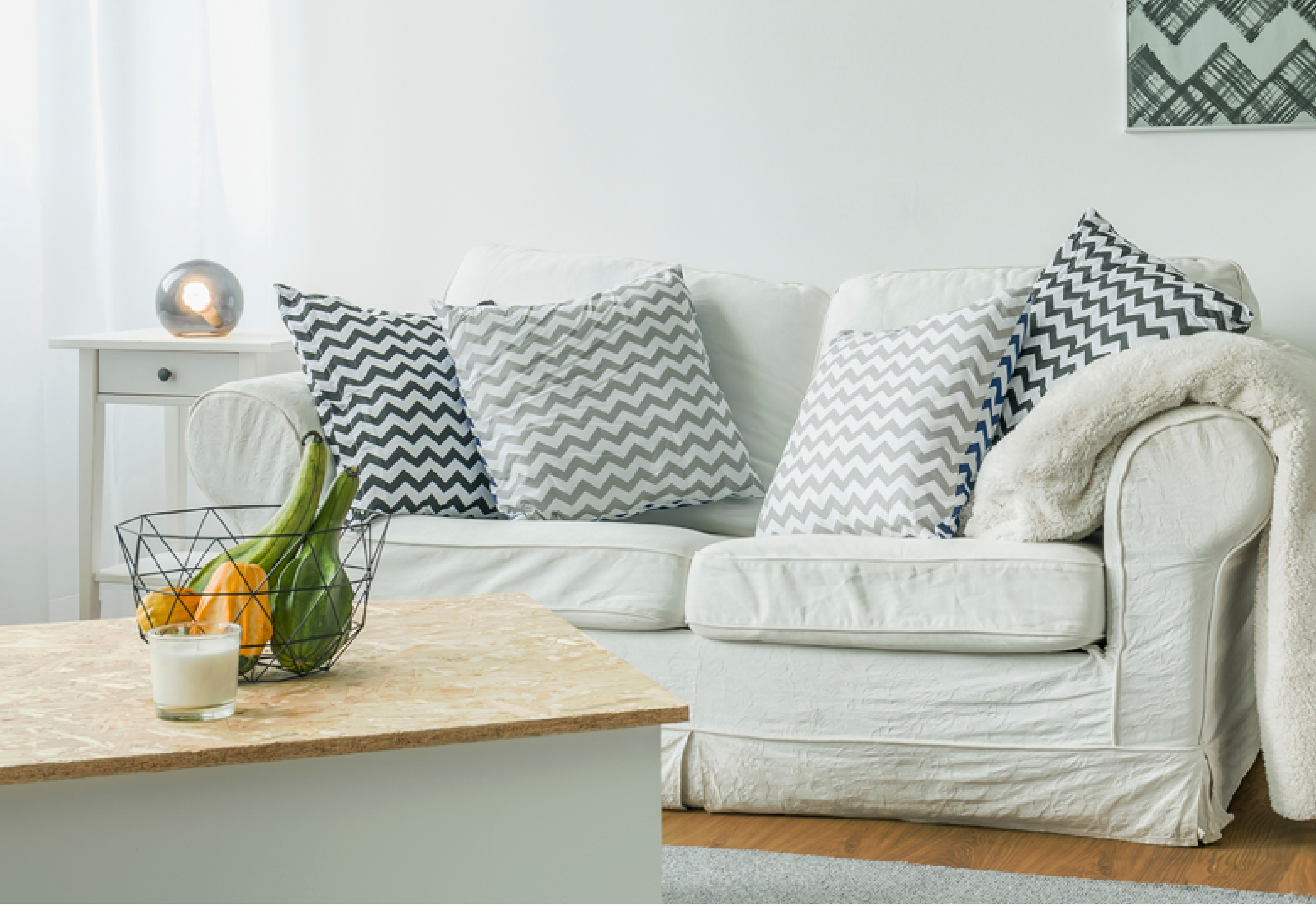
Lenders are allowed by law to set maximum age limits, and many do. This means that you will have to repay your mortgage by the time you reach the specified age. Your lender will not usually agree to a mortgage where the term extends beyond that age unless it is an exceptional case.

If you are borrowing on a joint mortgage then the maximum age will often relate to the age of the oldest borrower.

Some lenders will have a lower maximum age limit for interest-only mortgages and a higher age limit if you plan to make repayments on a capital and interest basis.

Building societies are, in general, more flexible than high-street banks when it comes to maximum age limits. Some do not have a maximum age at all and many will deal with your application on an individual basis.

You can speak to a mortgage advisor at your building society to find out more about any maximum age limits they have and other aspects of their lending policy.



Things to think about

Building societies recognise that lending into retirement isn't always riskier – but the risks a lender has to consider are different.

If you are planning to borrow into retirement, there are a number of non-financial things you should also consider.

These might not affect you now, but may do so as you get older. If you are currently affected by any of the issues set out below, you should contact your lender. Your building society wants to help, and have people trained to do so.

Mental capacity

There is evidence to show that the risk of developing a condition such as Alzheimer's disease, or any other form of dementia, increases with age.

If you want to guard against this risk, you can nominate someone close to you to help run your financial affairs in the event that you do lose some mental capacity.

This is called arranging a Lasting Power of Attorney (LPA) and you should contact the Office of the Public Guardian if you want to do this. Contact details are at the end of this leaflet.

Joint mortgages

If you are borrowing with a partner, then the affordability of your mortgage will be based on your joint income.

It can be a difficult thing to talk about, but you should discuss with your partner how the mortgage would be paid if one of you were to fall seriously ill or die.

You should take care to understand what might happen with the estate, including whether any (and if so, how much) pension income would transfer to the other partner.

Losing an income could mean that your partner is left unable to repay the mortgage, so it is important to have a contingency plan.

Inheritance

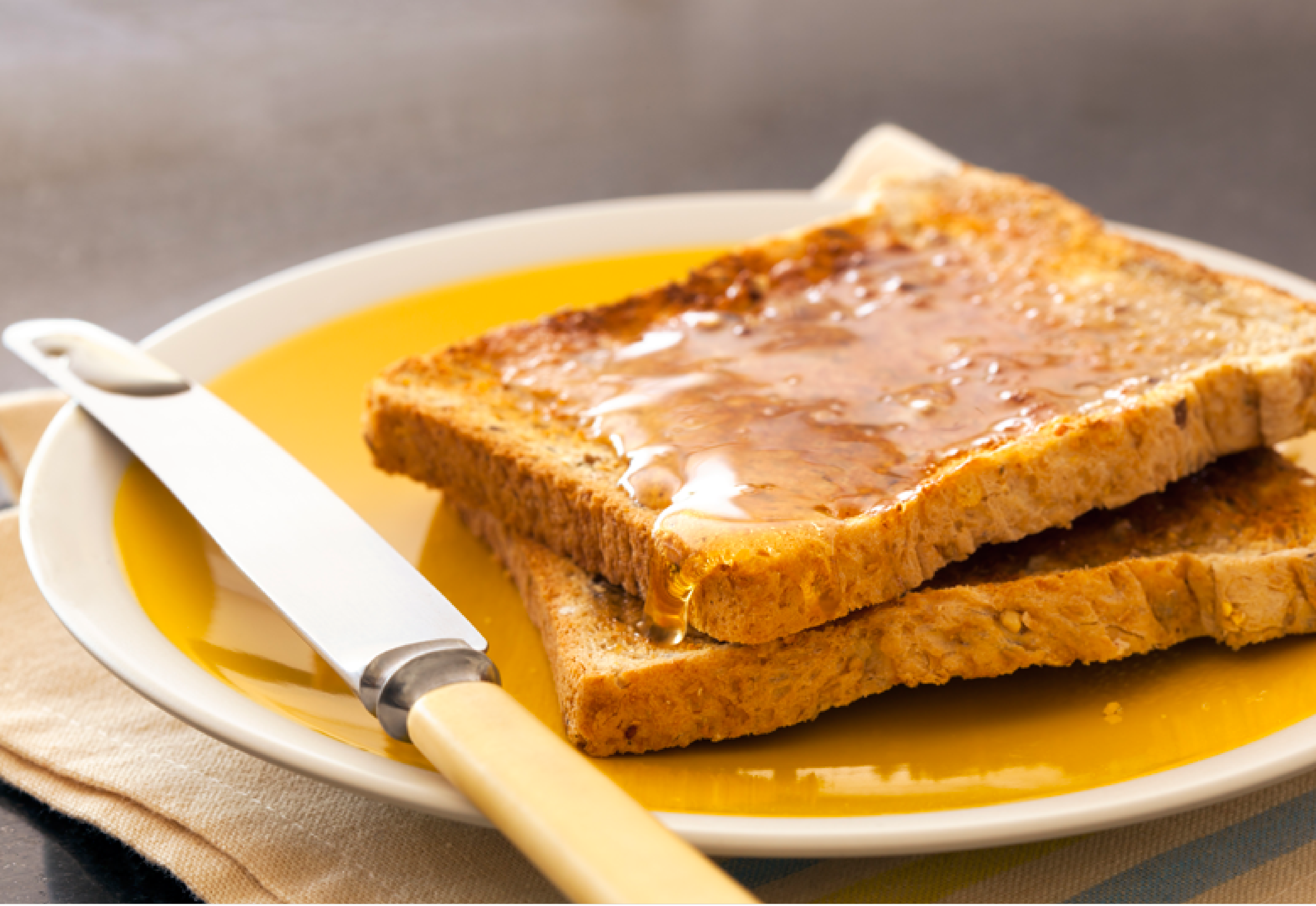
Many people plan to pass their home onto their family or friends when they die.

You should be aware that taking out a mortgage against your home could affect the value of your estate if it is not repaid before death.

If you have life insurance, then this might pay off part of the debt outstanding.

Without insurance your lender will expect to recoup the outstanding mortgage out of your estate. That means your heirs might have to sell your home to repay the mortgage out of the equity.

It might be an idea, then, to include your heirs in any discussions about taking out a mortgage if you are concerned about the effect it may have on their inheritance.



Who owns the home?

There are two ways you can own your home with a partner:

Joint tenants
If one partner dies then the property will pass to the surviving joint owner irrespective of any provision made in a Will.

Tenants in common
You and your partner each own a specific share in the property. On death the deceased person's share will pass to the estate via a Will or intestacy.

If your lender agrees to a joint mortgage they will usually insist that you and your partner are joint tenants – but it is worth making sure.

You should also make provisions for anyone else living at the property, such as adult children. They will not have a right to continue living in the property unless they inherit the whole share.

Life insurance

Another reason you may want to consider taking out life insurance is if you have family members who depend on your income to pay the mortgage.

You can take out a life insurance policy covering the whole term of the mortgage so that if you were to die before it is paid off, the insurance will pay most or all of the outstanding debt.

The main choice to make is whether you want to take out decreasing term insurance or level term insurance. As the names suggest, the former will pay out a decreasing amount over the term of the mortgage. The latter will pay out a flat sum whenever it is needed over the course of the term.

You should note that life insurance is likely to be more expensive and may be harder to get, the older you are when you take out your mortgage.

You can also get insurance to cover a range of other scenarios:

- *Income protection* – if you have to take time off work because of an illness or accident then this insurance can give you a regular monthly income, and help you to keep up with mortgage repayments and other costs.
- *Critical illness insurance* – if you develop a critical illness covered by the policy then this kind of insurance can give you a lump sum.

Pension freedoms

Since April 2015 anybody over the age of 55 with a Defined Contribution pension has been able to take lump sums out of their pension pot.

As outlined earlier, if you take a mortgage into retirement then the affordability calculations are likely to be based, at least in part, on the size of your pension pot.

You should be aware, therefore, that taking lump sums out of your pension pot is likely to affect your ability to repay the mortgage, and if done before you apply could affect the amount you can borrow.

You should seek professional financial advice if you are unsure how to make the best use of your assets.

What products are out there?

A lender's standard range of mortgage products will be available to you, subject to the maximum age policy if they have one.

Some lenders might also have more specialised products aimed at older borrowers with different rates or a higher maximum age. Often these will limit the maximum proportion of the value of the property you can borrow, and are likely to require a larger deposit.

Lenders are required to stress test the interest rate on your mortgage, to ensure that you will still be able to afford the mortgage if rates increase.

With some products the lender may stress test your mortgage at a higher rate if you are borrowing into retirement, as it will be more difficult to raise extra income to pay higher interest once you are retired.

Equity release

Another potential option if you already own your home out-right or have a substantial amount of equity in it, may be to get an equity release mortgage.

Most building societies do not offer equity release mortgages directly, but may have an agreement with another company and can refer you.

What is equity release?

Equity release is a way of unlocking the value of your home. The lender/provider will either secure the loan against your home or take an ownership stake in it.

Some products are available to people over the age of 55, while others are only available to those over 60.

If you plan to release equity you may want to take independent legal advice before doing so.

There are two main types of equity release:

Lifetime Mortgage

The lender will agree a maximum amount they are willing to lend you. This is secured against your home but you will retain full ownership.

You can choose to take the loan either in a lump sum or to draw it down over time.

Interest will be charged on the amount of the loan you take, as you take it.

With some products you can choose to pay part, or all, of the interest if you want to. Usually you will be able to switch to 'interest roll-up' later on if you can no longer sustain the interest payments.

If you pay the full amount of interest then your debt will remain at the level of the original loan. However any interest you do not pay will be added to your debt on a compounding basis.

This debt will be rolled up and recovered from the sale of the property after you die, or if you move into full-time residential care.

You can get extra protections from a provider that is a member of the Equity Release Council. Members of the Equity Release Council operate a 'no negative equity' guarantee which means the size of your debt will never exceed the value of your home.

Home Reversion Plan

Rather than lending you money, with a Home Reversion plan the provider will either buy your home or a percentage of it.

You will no longer own the percentage of your home which you agree to sell, but will be able to continuing living there, usually rent-free, until death or if you move into full-time care.

Normally the provider will pay less than the market value of your home. This offsets the fact they do not charge interest and also because they are unable to sell the property until you die or go into permanent care.

You will know exactly the percentage of your home which has been sold to the provider. They will recover that part of the property's value from your estate.

The process for getting an equity release mortgage will usually take longer than for a traditional mortgage because the lender/provider may ask you:

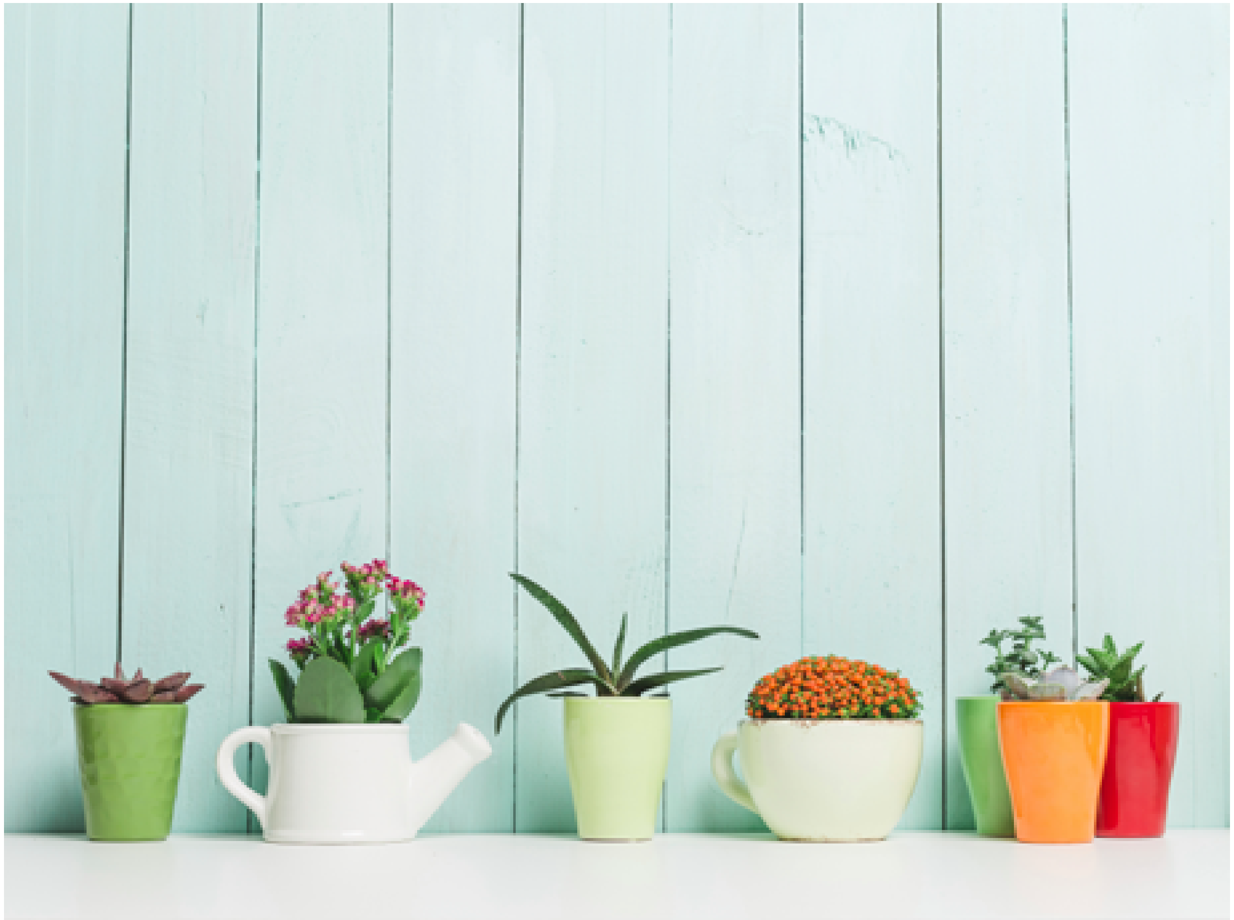
- To take independent legal advice
- To involve any heirs to your estate in the decision, though it is up to you whether you choose to do so.
- Questions about your health and lifestyle. Overall the advice process is likely to last longer and may take a number of interviews.
- To register a Lasting Power of Attorney to manage your debt if you lose full mental capacity.

Shared ownership

If you would prefer to buy a share of a property rather than own it outright, you might want to consider the Older Persons Shared Ownership scheme. This could be a good alternative to release some equity from your current home, though it will mean moving home.

The scheme is open to people 55 and over. You buy between 25% and 75% of the property and pay rent to a housing association for the remaining part.

A number of building societies have expertise in lending on shared ownership homes and may be able to help.



Useful resources

Age UK
0800 169 2081
www.ageuk.org.uk

Building Societies Association
www.bsa.org.uk

Citizens Advice
03454 04 05 06
www.citizensadvice.org.uk

Council of Mortgage Lenders (CML)
www.cml.org.uk

Equity Release Council
0844 6697085
www.equityreleasecouncil.com

Money Advice Service
0300 500 5000
www.moneyadviceservice.org.uk/en

Office of the Public Guardian
0300 456 0300
www.gov.uk/government/organisations/office-of-the-public-guardian

Older Persons Shared Ownership
www.homebuyservice.co.uk/homebuy-options/shared-ownership/older-people.html

Pension Wise
www.pensionwise.gov.uk

The Pensions Advisory Service
0300 123 1047
www.pensionsadvisoryservice.org.uk

Which? Money
www.which.co.uk/money

Customer decision tree

Why
Existing / potential customer identifies borrowing need, including…

- Helping children onto housing ladder
- Interest only mortgage, capital repayment date imminent, but insufficient funds to pay off the balance owed
- Want to purchase 'dream home' following inheritance, but can't buy home outright
- Want to re-mortgage remaining balance on mortgage to reduce monthly payments
- Income reduction following bereavement / divorce
- Buying a holiday home
- Using new pension freedoms to invest in a buy to let property
- Downsizing to more expensive property
- Struggling to meet current mortgage repayments due to illness
- Home improvements / adaptations

How
Help and guidance with deciding and weighing up options

- How much can I borrow?
- How much do I need to borrow?
- Is a mortgage / re-mortgage the best option for me?
- Is non-mortgage borrowing (Credit cards / personal loans) more appropriate for my needs?
- What are the consequences for me / my family of borrowing?
- Go to a financial advisor
- Ask my family for advice
- Talk to a lender
- Go online – lender website comparison websites
- Contact the Money Advice Service (by phone or in person, online)
- Lender / professional advisor challenging borrower assumptions

What
Loan taken (or not)

- 'Back to drawing board' if amount wanting to borrow does not meet affordability criteria
- Take out non-mortgage loan instead
- Take out a new mortgage
- Re-mortgage
- Equity release / lifetime mortgage

Who
Direct and indirect influences

Direct:
- Lender accepting your mortgage / providing your mortgage
- Conveyancer progressing the legal aspects of your mortgage
- Surveyor / valuer assessing the value of your property
- Mortgage advisors (or direct with lender for 'execution-only' mortgages)
- Solicitor setting up Lasting Power of Attorney (LPA) where necessary
- Financial Ombudsman Service (FOS) if you have a dispute with your mortgage provider
- Family and friends, who may help you make or be the reason for your borrowing decision
- HMRC – stamp duty, inheritance tax consideration etc.

Indirect (the customer cannot 'see'):
- Financial Conduct Authority (FCA), who set the affordability rules mortgage lenders have to apply when assessing whether you can afford your repayments now and in the future

When
Changing circumstances

Notifying lender of changes and impact they will have on ability to repay your mortgage, such as:
- Moving
- Care costs
- Death (including spousal death)
- Retirement
- New dependants (adult children returning to the home for example)

Credit: Council of Mortgage Lenders (CML) report – *Retirement Borrowing: Reality, Perceptions, Projections, Potential* (December 2015)

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