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A SHARP MIND STILL BEATS A SHARP SUIT



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Long-term mortgages reach new high

By Adam Palin Author alerts



The number of new mortgages whose terms exceed 30 years has reached a record high, illustrating the tension between rising house prices and affordability.

About one in eight mortgages agreed over the past 12 months is not due to be fully repaid within 30 years, according to data from the Council of Mortgage Lenders.

The prevalence of such long-term lending has almost doubled over the past four years, with 13.7 per cent of all loans agreed in the first quarter of 2014 having terms of over 30 years. Pre-

recession levels peaked at 7.3 per cent in the fourth quarter of 2007.

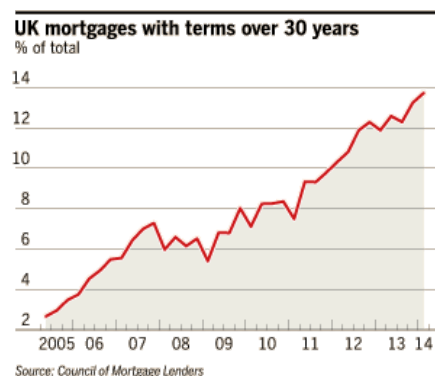
With UK income growth outpaced by rises in house prices – annual growth hit double digits in April, according to Nationwide – the affordability of mortgages has become a serious concern, despite historically low interest rates.

“With interest-only mortgages harder to come by, and with affordability a bit tight, longer terms can make monthly repayments more manageable for borrowers,” said Nigel Bedford, senior partner at Largemortgageloans.com.

However, longer mortgage terms mean that borrowers ultimately pay back more over the life of the loan.

Mr Bedford cites the example of a £400,000 mortgage on Halifax’s 1.99 per cent two-year fixed rate, reverting to 3.99 per cent at the end of the fix. Initial monthly repayments under a 25-year term would be £1,694 but drop to £1,210 with a 40-year term.

The total repayment costs (including fees) under a 40-year term would be £780,816, compared to £614,235 under a 25-year term.



“Borrowers are best advised to keep their mortgage terms as short as possible, or to take longer terms with the opportunity to overpay [monthly],” says David Hollingworth, associate director at London & Country Mortgages.

Mr Hollingworth added that the application of new affordability rules following the mortgage market review may leave more people looking for longer mortgage terms in order to pass affordability checks.

Although first-time buyers account for the largest proportion of borrowers with longer terms – about a quarter borrow for more than 30 years – growing demand over the past few years has come from those moving home.

In the first three months of this year, 11 per cent of movers secured long mortgages compared to only 5 per cent in first quarter of 2010.

Currently, 12 lenders offer 40-year mortgages against properties in England. Most borrowers with ultra-long-term mortgages will usually look to refinance – and reduce the term of their loan – once circumstances permit, said Mr Bedford.

The same CML figures showed a big increase in lending to buy-to-let landlords.

The number of buy-to-let mortgages advanced was up 46 per cent in the first quarter compared to a year ago, while the number advanced in March was up 56 per cent compared to March 2013.

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