

Banks refuse mortgages for older borrowers as they become increasingly risk averse

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Growing numbers of older borrowers are struggling to remortgage as lenders have become increasingly risk averse since the credit crunch.



Concerned: Mortgage broker Caroline Burke

Brokers are reporting banks refusing to lend to some borrowers in their 60s and even in their 50s if the loan stretches beyond traditional retirement age.

Lenders are increasingly asking to see extensive details of pension provision. Previously, lenders did not dictate a maximum age at the end of a mortgage term provided the loan was affordable.

For some older borrowers the problem is interest-only mortgages, according to Caroline Burke, mortgage manager at broker largemortgageloans.com.

'The banks are concerned about the rising number of existing borrowers contacting them on reaching retirement age who have only interest-only mortgages and no repayment vehicle – because endowments and pensions have not performed,' she says.

In some cases brokers say lenders will not permit a remortgage unless the borrower switches to repayment, and this can make loans less affordable.

Ray Boulger at broker John Charcol says the regulator is exacerbating the issue. He says: 'The Financial Services Authority seems to think lending into retirement is automatically bad.'

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'Its logic seems to be that offering an interest-only mortgage to a mature borrower who can comfortably afford the payments is risky, but provided the same borrower is prepared to pay a higher interest rate, be locked in to early repayment charges and roll up the interest with an equity release mortgage that is fine.'

Banks and building societies say they have to be careful about lending, particularly where a borrower's future income may drop, for example in retirement. But critics say this problem is a ticking timebomb if lenders are not more flexible.

Currently most lenders will not lend beyond the age of 70, or 75 in some cases. And yet borrowers are getting on the property ladder at a later age due to high house prices and low wage inflation. They will have to hold mortgages to a much later age, even in to retirement.

A survey by insurer LV= published in June found the average first time buyer is 38. It predicts this will rise to 41 by 2025. David Hollingworth, at broker London & Country Mortgages, says some lenders are still happy to arrange a mortgage for borrowers aged 80 and beyond.

'Affordability is still key for lenders, but there are some who are happy to see a mortgage term extend into a borrower's eighties,' he says. 'Clearly, it is important borrowers are not left with a big mortgage beyond retirement that they cannot service, but other borrowers can feel they are being discriminated against.'

The charity Age UK, which campaigns for the rights of older people, has expressed its concerns at the trend.

Director general Michelle Mitchell says: 'Lenders' decisions should be objectively based on an individual's credit risk and ability to pay, not their date of birth.'

To pile further misery on hard-pressed borrowers last week it was revealed that average mortgage arrangement fees on fixed and tracker-rate deals have rocketed to an all-time high of £1,514, according to data compiler Moneyfacts.

It compares to an average set-up cost of just £925 in September 2009 and £1,023 in September last year.