

How to pay off a mortgage in retirement: More of us are hitting old age with home loans to pay, but there is no reason to panic



Over 30% of homeowners now expect to still have a mortgage by the age of 65. There are a number of options open to people needing to pay off a mortgage.

House prices are soaring, first-time buyers are getting older and mortgage terms are getting longer — so it is little wonder that fewer borrowers expect to have paid off their mortgage by the time they retire.

In fact, more than 30 per cent of homeowners now expect to still have a mortgage by the age of 65 — up from 26 per cent two years ago, according to a survey by an investment platform.

There is good news, though. There is now more choice than ever exclusively for older borrowers who want to re-mortgage in retirement or borrow more money.

Staying traditional

More and more banks are now happy to give an ordinary mortgage to older borrowers as they are understanding that people don't stop working when they reach state retirement age.

Borrowers are living and working longer, so having debt in retirement is more common, making later-life mortgages an important part of financial planning. Mortgage lenders used to insist that mortgage debt was repaid by a borrower's 65th birthday, but more have now lifted their maximum age restriction to 85 and interest rates do not differ depending on age.

Traditional mortgages have fewer loan-to-value restrictions than other later-life loan options, giving families the opportunity to borrow more.

Just pay the interest

Retirement Interest Only (RIO) mortgages are the newest addition to later-life borrowing options. You have to be over 55 to apply and most lenders restrict the amount you can borrow to between 50 per cent and 70 per cent of the value of your home.

You pay only the interest, which makes the mortgage more affordable for borrowers in retirement.

The debt does not have to be repaid until the last homeowner dies or moves into long-term care.

It can be repaid sooner, penalty free, if the mortgage deal has expired. Some lenders offer overpayment features.

RIO mortgages are useful if you still have a traditional mortgage but you have given up work and want a cheaper option.

You can also re-mortgage to raise more money to spend in retirement. The average interest rate is 3.5 per cent, according to data firm Moneyfacts, but those borrowing small sums can pay much less.

You have to remember to re-mortgage each time your deal ends, otherwise you will end up on your lender's costly standard variable rate. Lenders have tough affordability assessments as each borrower must be able to pay the mortgage on their own if their partner dies.

Unlock home cash equity

Equity release loans, also known as lifetime mortgages, can be used to repay any outstanding mortgage debt, pay for home improvements or to help loved ones onto the property ladder, for example.

The loan does not have to be repaid until the last borrower dies or moves into long-term care. You must be over 55 to apply.



Instead of re-mortgaging from one deal to another, you are given a fixed interest rate for life that is based on how much equity you have in your home and your age.

There are no repayments: instead, the interest builds up and is added to the loan. Borrowers taking out equity release now can secure record low interest rates. The average fixed rate for life is now 4.14 per cent, according to Moneyfacts, but some rates are as low as 2.8 per cent.

However, it is a borrower's market right now. A number of lenders are specifically competing for the generation of property owners aged 55 and over, which means lenders are offering lower rates and more flexible features than ever before.

Modern equity release mortgages have features, such as optional interest payments and the choice to repay the loan penalty-free if a joint borrower dies.

Sell up and downsize

If you have owned your home for more than a decade, your home value may have risen. If you want to free yourself of mortgage debt, you can sell and use the equity built up to repay the home loan and buy a smaller property.

If you would like any more information or advice, contact us for an independent recommendation on all aspects of later life planning following an initial free consultation.

Contact the team through www.mhwifa.co.uk with the subject 'Later Life Review' and we will get in touch with you in the near future to further assist.

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