Flexible approach key to opening up retirement mortgages
Tom Molloy, Intermediary Sales Manager at Mansfield Building Society

There can be no doubt that demand for later life lending is strong at the moment. The latest data from Knowledge Bank, which digs into the most common criteria searched for by brokers using sourcing systems, makes that clear.

It found that in February the most common criteria was ‘maximum age at the end of term’, a vivid illustration of how clients are increasingly looking for mortgage solutions that will take them into their later years. This was supported by the fact that the third most common criteria - a new entry into the top five - was ‘maximum age for employed income’.

Encouragingly, while the Knowledge Bank data shows us that the demand is there from clients to be able to borrow into their later years, we also know that brokers are able to help those clients secure the finance they need, with UK Finance figures showing a steady increase in later life mortgages, including retirement interest-only (RIO) mortgage products.

This is particularly promising given the numbers of borrowers in their later years whose existing deals are starting to near maturity, and who want to review their options.

Affordability issues with RIO

One of the reasons that some brokers can be understandably wary about RIO mortgages is the way that affordability tests are handled. When there are joint borrowers, it’s commonly the case that the mortgage must be stress tested against each of their incomes individually.

That’s great if both parties have a similar pension income, but it’s more often the case that one of the couple has a much more significant pension income than the other. As a result, the amount that can be borrowed through the RIO mortgage is greatly reduced, making it less useful for some clients.

It doesn’t have to be this way though. At Mansfield we look to take a more flexible, common sense approach to all of our lending, particularly with our Interest Only with property downsizing mortgages. By allowing borrowers to specify downsizing as the way they will repay the loan after a set period of time, so long as there is sufficient equity in the property, it can allow us to be more flexible, meaning that they are able to raise the funds needed without encountering the usual affordability issues.

Making the most of downsizing

For some borrowers with an interest-only mortgage that’s nearing completion, downsizing immediately is the simplest and best option. Moving to a smaller property can not only help with their changing needs - for example by moving to a bungalow if stairs are starting to become an issue or general reduced maintenance - but it can also mean that not only are sufficient funds raised to pay off the existing mortgage, there could be also some left over to supplement their pension savings to boot.

However, it would be wrong to assume this will be appropriate for everyone. There will be plenty of older people whose interest-only deals are reaching the end of their term, but who are not minded to downsize just yet and so need an alternative.

We had a case recently which demonstrates this perfectly. The borrowers were a couple in their 60s, who had taken out an interest-only mortgage on their property which would shortly be coming to a close. While they could sell up in order to release the funds needed to repay the capital on that mortgage, they were not ready to leave the home in which they are happy, and which still perfectly meets their needs.

That's where an Interest Only mortgage with downsizing as the repayment strategy comes in. The couple were able to extend their mortgage term until they reach 70, giving them a few more years in the home they love, with the knowledge that they can downsize to a new property in a couple of years to pay off their mortgage.

It was a perfect example of how an Interest Only mortgage can come up trumps and deliver the sort of flexible funding the client needs, and which simply isn't covered by other products within the mortgage market.

Understanding clients

Ultimately, this all comes down to taking a more personal and common sense approach to lending. It's easy for lenders to get bogged down in the perceived complexity of a case, to get caught up in the headline facts and to think of the Equity Release or RIO pigeon holes.

That isn't how we operate though. We believe that by looking more closely at the details of a case, by getting a better understanding of the clients and what they are looking to achieve, we are then in a far more informed position to assess the case properly, on its true merits – and give them a product that truly fits their needs.

This flexible attitude means that we can consider cases that other lenders would perhaps shy away from, and open up the potential of retirement lending to far more clients who could benefit from them.

A common sense approach

If you've got a case on your desk that requires a common sense approach to lending then please pick up the phone to our Broker Support team on 01623 676360 or visit https://www.mansfieldbs.co.uk/intermediaries/.