



IS 35 THE NEW 30?

The case for longer-term home loans to end rent trap



CHRIS FOSTER-RAMSAY

As the owner of a mortgage brokerage, I speak to mums and dads every day.

Now more than ever before, they're feeling the struggle of not being able to purchase a suitable property big enough for a family, close to extended family, with the amenities they want and need.

I believe it's time for policy-makers and lenders to consider extending loan terms from a maximum of 30 years to a new maximum of 35 to improve access to homeownership and address the current housing affordability crisis.

There's no doubt that while this approach has both benefits and drawbacks, the benefits are worth serious consideration.

Lower monthly repayments

The most immediate benefit of longer loan terms is reduced monthly minimum repayments.

This seemingly small difference can make homeownership feasible for many who are currently priced out of the market, and can be further

embraced by those who want to pay on a weekly or fortnightly basis.

Increased borrowing

With lower repayments, borrowers may qualify for larger loans.

This could allow more Australians to purchase homes in desirable areas or properties that better suit their needs, rather than settling for less due to budget constraints.

Flexibility for borrowers

A 35-year term doesn't mean borrowers are locked in for that entire period. It simply provides more flexibility.

Those who can afford higher repayments can still pay off their loans faster.

Addressing concerns

Critics may argue that longer loan terms lead to more interest paid over the life of the loan.

Many Australians currently stuck in the rental market would gladly accept higher long-term costs in exchange for the stability and wealth-building potential of homeownership. The additional interest paid over 35 years may pale

in comparison to the opportunity cost of not entering the property market sooner.

Over a 35-year period, the impact of inflation and potential property value increases can significantly offset the additional interest costs.

What seems like a large sum today may feel much more manageable in the future as incomes rise and the loan balance becomes a smaller portion of the property's value.

Mitigating risks

To responsibly implement 35-year mortgages, lenders and regulators should consider:

Stricter lending criteria: Ensuring borrowers can comfortably afford repayments even if interest rates rise is crucial. This may involve more conservative debt-to-income ratios or higher credit score requirements for extended-term loans.

Financial education: Mandating and providing clear information to these borrowers about the long-term costs and encouraging borrowers to make extra repayments when possible can help mitigate the risks of extended-loan terms.

Refinancing options: Len-

ders could offer incentives for borrowers to refinance to shorter terms once their financial situations improve, ensuring the 35-year term is a stepping stone rather than a lifelong burden.

This could look like once-off rate discounts after year two or three, based on outstanding repayment conduct.

The bigger picture: Extending loan terms is not a silver bullet for housing affordability. It's a pragmatic step that could make a real difference for many Australians.

When combined with other measures like increased housing supply and targeted assistance programs, it could play a significant role in addressing our housing challenges.

Embracing change: The home loan lending market has evolved significantly over the past few decades, and it's time for another step forward.

Thirty-five-year mortgages represent a balanced approach that provides immediate relief to borrowers while still maintaining responsible lending practices.

Some may view this change as too radical, but I argue that it's a necessary adaptation to

our current economic realities. We've seen similar shifts in other countries, and Australia shouldn't be left behind. The benefits to individual borrowers and the broader economy could be substantial.

Implementing a 35-year mortgage option could be the key to opening up homeownership for a new generation of Australians who have been locked out of the market.

To those who are sceptical, I say let's not let perfect be the enemy of good.

While 35-year mortgages may not be ideal in every situation, they provide a valuable tool to address our pressing housing affordability issues. With proper safeguards and education, we can harness the benefits while mitigating potential risks.

It represents a bold but measured step towards a more inclusive housing market. By providing Australians with a pathway to homeownership, we can strengthen communities, build individual wealth, and contribute to a more stable and prosperous nation.

Chris Foster-Ramsay is a finance and money expert