

Loyalty to lenders doesn't pay, so switch

Your mortgage is just another bill, so don't hesitate to look for better deals at other banks, says **Mark Channing**

MORE than 100,000 mortgage holders could be missing out on savings of thousands of euros by failing to switch their mortgage to a cheaper lender, according to new research.

The findings were contained in an economic letter entitled "Switch and Save in the Irish Mortgage Market?" published by the Central Bank last month.

The research, which analysed more than 500,000 mortgages, found that up to 21% of borrowers could save money by switching.

Despite the savings, the number of mortgage switchers in Ireland is tiny. Out of 684,000 mortgages, just 38 borrowers a month have switched since January 2014.

According to the Central Bank, among the reasons for the low switching rate is a belief that the process is complicated, time-consuming and costly.

Ken Murray of the Association of Expert Mortgage Advisers said: "It's no different to reviewing any utility bill or insurance premium. The savings you can make by switching mortgage are far bigger than switching your other utilities."

The inertia is all the more surprising as Irish home loan

holders are being charged some of the highest mortgage rates in Europe. Standard variable mortgage rates charged by Irish banks are almost 2% higher than the eurozone average.

We tell you how much you could save by switching mortgage and offer expert advice on how to do it.

HOW MUCH CAN I SAVE?

According to the Central Bank, 16,000 mortgage holders could save more than €1,000 within 12 months of switching, while around 27,000 switchers have the potential to save more than €10,000 over the lifetime of the loan.

The savings are based on your new lender remaining cheaper than your old lender for the remaining term of the mortgage, something that is impossible to predict.

One third of the mortgages analysed by the Central Bank could make savings by switching but are tied to their existing lender because the outstanding loan balance is too small (a home loan must be more than €30,000), there were arrears on the mortgage or the loan-to-value (LTV) ratio was more than 90%.

You may also be prevented from switching if you are in negative equity or have an impaired credit record. Meanwhile, those in the middle of a fixed rate deal will be penalised if they break the deal early by switching.

WHERE DO I START?

Anyone thinking of switching should start by contacting their existing lender, say experts. Michael Dowling of the Independent Mortgage Advisers' Federation said: "The very first thing everyone should do is to tell your existing lender that you're considering switching and challenge them to give you a better deal."

All of the banks except Danske Bank — which is exiting the Irish market — allow existing customers to either fix at lower rates for an agreed period or to use the equity in their homes to switch to a cheaper LTV deal.

The more equity you have in your home, the lower your LTV and the better offer your bank will make you. "The 80% LTV

threshold is a particularly important one," said Murray. "Anything under 80% will see



banks slash the interest they charge significantly.”

For example, a Bank of Ireland customer in the 61%–80% LTV bracket could be paying up to 4.5% on a standard variable rate (SVR) mortgage. A switch to the bank’s three-year fixed rate of 3.6% would yield substantial savings.

“That’s a saving of almost 1% on the variable rate, and all you’ve done there is made a phone call to the bank,” said Dowling.

You may need a valuation on your house to confirm the mortgage’s LTV. These cost about €130. Dowling said you could ask an estate agent to carry out a free sales appraisal and use this document as evidence of your home’s value.

PTSB is writing to its SVR mortgage customers who are paying 4.5%, telling them that they can switch to a new LTV mortgage based on the equity they have built up in their homes. An existing PTSB

customer with a €100,000 mortgage on a home valued at €250,000 could save up to €10,000 over 20 years by switching from the bank’s standard variable rate of 4.5% to the new rate of 3.7% for homes with a LTV below 50%.

Ulster Bank also allows existing customers apply for a cheaper LTV deal as equity is built up in their homes.

HOW LONG DOES IT TAKE?

If you don’t want to switch to a fixed-rate deal, and your bank won’t allow you to switch to a lower rate based on your loan to value, then you should switch to a cheaper lender.

KBC SVR mortgage customers who also have their current account with the bank pay up to 4.3% on their loans. The bank will not reduce this for customers with low LTVs, even if they threaten to switch.

Fair Mortgage Rates Campaign, a pressure group set up

to get banks to lower their mortgage rates, said: “These KBC customers who can switch, should switch immediately.”



HEDGE YOUR BETS BY CHOOSING A PART VARIABLE, PART FIXED-RATE MORTGAGE

diately.”

Along with proof of address and ID, you will need recent payslips, a P60, current account statements for the past six months, and 12 months of up-to-date mortgage account statements.

You will also need to appoint a solicitor to transfer the title of the property and get a valuation of the property.

“It’s a full mortgage application but you have to embrace it with the saving you’re going to make,” said Murray.

“Generally the longest part of the process is getting the deeds back from the existing lender, but the whole process shouldn’t take longer than four to six weeks,” he said.

HOW MUCH DOES IT COST?

Switching mortgage costs around €1,300 in legal and valuation fees, but the majority of lenders cover most or all of these costs.

Bank of Ireland pays switchers 2% cashback of the value of the mortgage, PTSB gives switchers €1,000 cash

while Ulster Bank pays €1,500. KBC is giving switchers €2,000 to cover the cost of switching.

Of the current switching deals, only Bank of Ireland’s

cashback deal can be clawed back and you would have to repay the money if you switch again within five years.

Experts say you should focus on the mortgage rate your new lender is charging, rather than its switching deal.

Ciaran Phelan of the Irish Brokers Association said: “Don’t be lured by ‘attractive’ offers — take your time. A bank may well say that it is a good idea to switch but you need to be absolutely sure that you too are benefiting in the long term.”

FIXED OR VARIABLE?

There are pros and cons to switching to a fixed rate mortgage or choosing a lender’s variable LTV offer. A fixed-rate deal gives you certainty over repayments. You will be penalised for making overpayments or breaking early, however, so the loan is not very flexible.

Fixed rate mortgage holders also miss out on any future cuts to variable interest rates. That said, experts say current fixed rate deals are attractive.

Dowling said: “I would be saying to borrowers that, historically, a three-year fixed rate of around 3.6% represents very good value.”

Ulster Bank’s three-year fixed rate is 3.55% for mortgages with a LTV of up to 80%, while Bank of Ireland charges three-year fixed rate customers 3.5% on mortgages with a LTV between 61%–80%.

You can hedge your bets by choosing a part variable, part fixed-rate mortgage. This gives you the flexibility to overpay and also allows you to benefit from any cuts in banks variable rates.

Meanwhile, you have the certainty of knowing what your repayments will be on the fixed portion of the loan.

Murray said: “I would never lock the entire mortgage in a fixed rate. I would go part fixed, part fixed-variable. That



would be my preference."

but get yourself a better deal."

MARK CHANNING

Saving money, paying off early

Brendan Mooney said he will save €8,000 in interest payments and pay off his mortgage three years earlier by switching from Bank of Ireland to Ulster Bank.

Mooney, 44, a facilities property manager, recently came to the end of a five-year fixed-rate deal with Bank of Ireland on his three-bedroom, end of terrace house in Skerries, Co Dublin.

When the fixed-rate period ended Mooney's mortgage reverted to Bank of Ireland's standard variable rate of 4.5%.

Using the equity he had built up in his home Mooney switched to Ulster Bank's five-year fixed rate of 3.5% on mortgages with a loan-to-value of 60%.

Ulster Bank covered Mooney's legal costs up to €1,500, and he was not out of pocket.

Mooney, pictured, opted for a part variable, part-fixed mortgage. He put roughly two-thirds of the loan on fixed rate, and the remainder on Ulster Bank's discounted variable rate of 3.8%.

This means he can overpay the variable part of the mortgage without penalty.

"I wanted that bit of security on what my fixed rate is going to be but I also want the flexibility to overpay," he said.

Mooney said he was surprised at the ease of the switching process. He previously moved his current account to Ulster bank.

"You remember getting the initial mortgage and the paperwork," he said.

"The whole process was a nightmare, but I have to say this has been seamless."

Mooney said more competition in the mortgage market was badly needed. "We really need another lender. Average mortgage rates are almost 2% higher here than in the rest of Europe. What that says to me is that we need more competition."

In Mooney's view, if more people switch their mortgages, banks would have to come out with better offers.

"There's a fear factor when it comes to switching banks but I would say to people to take the bull by the horns," he said.

"Get some financial advice if necessary



