



On the move

New mortgage products allow tracker mortgage customers to move and hang on to their tracker rate, but what's the catch?

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Met John and Sarah. The thirtysomething couple will become parents for the second time in October, and are desperate to find a home that fits the needs of their growing family.

They live in a small, two-bed apartment with their two-year-old daughter Ella, and it's already bursting at the seams with all the trappings of a young family. A boom-time purchase that was meant to be a first step towards a family residence has been their home for longer than they had planned, due to the overhang of negative equity and a fear of losing their attractive tracker rate.

The range of tracker mover products that has appeared in recent months is certainly welcome news for John and Sarah, and for thousands of other families in similar situations.

According to Ken Murray, director of the Association of Expert Mortgage Advisors (AEMA), the new AIB tracker mover product that was launched last week, and other products in the same space, are "a win for a family like that".

"It gives them choices. It presents an option that wasn't there for them this time last year," he said.

Beyond the families trapped in too small a property, the tracker mover offers are also likely to interest people who want to downsize or relocate. These new mortgage products will catch the eye of anyone who felt they couldn't move for fear of giving up a tracker, the cheapest type of mortgage

on the market.

Ciaran Phelan, chief executive of the Irish Brokers Association, said that tracker mover products were a "big relief to the holders of many tracker mortgages who want to move, but feared losing the most valuable mortgage repayment plan".

Mortgage customers who avail of these deals will be able to move house and hang on to their tracker rate. In return they must pay a premium above their existing tracker rate, but the rates on offer are still attractive relative to the prevailing market rates, given that the European Central Bank has cut interest rates so low. Bear in mind, however, that any additional borrowing required to fund a new home is subject to market rates.

The options available differ depending on your lender, with Murray saying that some offer borrowers more certainty than others. For example, he said that the new AIB offer, which allows the tracker rate to be retained for the entire mortgage duration, offers "real clarity for the term of the mortgage".

"It's a better way of doing it than making an offer for five years," he said, highlighting the offers available from Bank of Ireland and Ulster Bank.

"Both Ulster Bank's and Bank of Ireland's products in this space are very much to the bank's advantage," said Michael Dowling, spokesman for the Independent Mortgage Advisors Federation (IMAF). He cited the example of a tracker mortgage customer with 20 years left on their mortgage, saying that such a customer would only have "five years of their tracker rate, and longer off it".

While these new tracker mover

products have been generally welcomed as opening up new options to homeowners, it remains to be seen how wide their reach will be.

First off, lenders restrict access to tracker mover products to existing customers, so switching is not an option. Straight away, this rules some mortgage customers out of even looking at the tracker mover options.

For those who took out a mortgage with the since-departed Halifax, or the downsized Danske, moving and hanging on to a tracker is not an option, according to Dowling. He said that homeowners in this boat could only "look at the rates available at the moment" if they wanted to move.

Those in arrears are generally excluded, too, which narrows down the potential pool of applicants even further.

Affordability is likely to scupper another cohort who want to move with their tracker. "It boils down to income fundamentally," Dowling said.

Some people in negative equity, for example, might struggle to qualify for a new mortgage to trade up, as the income requirements to cover both the negative equity and a new loan might be too much of a stretch.

As with any mortgage decision, mortgage customers need to consider their ability to repay the loan.

"The first thing you need to ask yourself is can you meet the new repayments," said Dowling.

Tracker mover offers are available to homeowners in positive and those in negative equity. However, for the latter group, making the move could be tricky. Where those moving to a new property are carrying a chunk

of negative equity, lenders will allow for a higher loan-to-value (LTV) ratio than allowed in the case of a typical purchase. However, Dowling said the LTV cap could be "a stumbling block" that will rule out some potential applicants.

AIB's spokeswoman said that the maximum LTV of the new property, including the residual debt, could not "be more than 175 per cent, subject to a maximum loan balance of €700,000".

Bank of Ireland also caps the maximum LTV at 175 per cent, while Ulster Bank will allow for an LTV of up to 200 per cent.

With both KBC and Permanent TSB, a maximum LTV of 125 per cent applies if a customer in negative equity is trading up, meaning the total loan amount increases. For those who are trading down, meaning the total loan amount is decreasing, an LTV of 175 per cent applies.

In Murray's view, even though tracker mover products may not be availed of by a broad spectrum of people, they still represent a good offer, generally speaking. "It's a reasonable proposition to try to find a mechanism that's fair to both parties, both the borrower and the lender," he said.

However, he said that, as yet, there had not "been a huge rush" from mortgage holders to avail of tracker mover offers. "It's still in its infancy," he said.

For those who are delighted to have an option to move open to them, and who have sufficient income to cover a new mortgage, there's still one hurdle remaining: the lack of supply of suitable properties.

"Even if you qualify for one of these offers and you get your loan approved, finding somewhere might be a problem," Dowling said. "These products help but there's still a lack of supply. There's a dire

shortage of property in certain areas, which is very frustrating for people.

"They've seen an uplift in the value of their apartment, they've retained their job through the downturn, and just when they want to make a move, and there are mortgage products available, the supply just isn't there."

What's on offer

AIB

Last Tuesday, July 1, marked the first day that AIB's customers, and those of its subsidiaries EBS and Haven, had access to a tracker mover product. Under the bank's "tracker interest rate retention" offer, customers can move with their tracker for a premium of 1 per cent for the duration of the existing term. Additional funds required will be at new business rates, with the product available for those in both positive and negative equity.

Bank of Ireland

The bank's product for people with a tracker who want to move house is one of the less attractive offers in the tracker mover space, as qualifying customers can only transfer their tracker mortgage for five years. "In five years, the tracker product will roll to the prevailing existing mortgage variable rate, or the customer can avail of an existing mortgage fixed rate," the bank's spokeswoman said. As with the other offers in the market, those who move with a tracker will pay a higher rate, with a premium of 1 per cent applied by Bank of Ireland for the five year duration of the offer.

KBC

The bank announced details of its tracker mover offer in March. Both those in

negative and positive equity can avail of the offer, but they must have a minimum deposit of 10 per cent of the purchase price of their new home. KBC's offer allows customers to retain their tracker for the full term of the existing mortgage, but as with other lenders, they apply a premium. The additional interest rate applied by KBC is, at 1.25 per cent, higher than some of the other offers in the market. And, where additional finance is required, new business rates apply.

Permanent TSB

Earlier this year, Permanent TSB unveiled its offering for those with a tracker mortgage, those in negative equity and those who straddle the two categories. The Permanent TSB product, which has been available since early May, allows existing tracker customers to buy a new property and hang on to their valuable tracker rate for the duration of their existing mortgage.

However, an additional margin of 1 per cent above the current tracker interest rate applies. Also, as with other lenders' offerings, for those who trade up and require additional funds, new business rates will apply to the amount above the outstanding tracker mortgage balance.

Ulster Bank

Like Bank of Ireland, Ulster Bank's tracker mover offer is also restricted to a five year period. The offer is available to those in positive equity and those in negative equity, with Ulster Bank's spokesman saying that "the rate offered will depend on the loan to value".

Effectively, this means that those carrying more residual debt will face a higher rate. After the five-year period, the consumer will move on to the prevailing standard variable rate.



