

# Escape route from your mortgage misery

Weighed down  
by your home  
loan? You don't  
need to stay with  
your bank, writes  
**Ken Murray**

**O**f all the campaigns and lobby groups that sprung up during the austerity years, the recent push for the banks to cut their standard variable rate (SVR) on mortgages would seem to have a greater chance of success than most.

Latest figures suggest there are 300,000 SVR mortgages in the country. Taking into account the fact that many of these are joint mortgages taken out by couples, that means that approximately 400,000-500,000 people are directly affected by the fact Irish rates are significantly higher than elsewhere in Europe.

It is no surprise, then, that politicians are pressing banks to explain how they can justify charging rates that are several percentage points above the rate at which they access funds from the European Central Bank. After hauling in the banks for talks, the finance minister Michael Noonan said last month that the country's six main mortgage lenders would cut their SVRs by July 1, or face penalties.

Rather than waiting for the government's plan to tame the banks to unfold, however, customers with SVR mortgages need to take control and assess whether they have the power to make the banks work for them. While hardship negative equity cases garner a lot of coverage, the vast majority of the 300,000 SVR mortgages in issue predate

tracker mortgages and are likely to be in a positive loan-to-value (LTV) position.

In many cases, the borrower's income has probably increased since the mortgage was drawn down. This would suggest that at least half of these mortgage-holders could be in a position to switch lender and potentially avail of a lower rate, and ultimately save themselves thousands of euros.

Patrick Honohan, the Central Bank governor, told a recent meeting of the Oireachtas finance committee that as many as 15,000 SVR mortgage holders could save more than €1,000 a year by switching provider. "If people were more active in the switching market, it might keep banks on their toes," said Honohan.

## Why don't more people switch?

There seem to be a number of reasons why the vast majority of people don't switch mortgage. The first reason is simple: people just don't know about switching.

Switching is not something that banks like to actively promote in marketing and advertising campaigns. If you're not talking or reading about mortgage-related

issues, then there's a good chance that you simply haven't heard much detail about switching options.

Second, there is a cohort of people who know about switching, but believe it will be very stressful and

time-consuming, so not worth the effort. While it can be inconvenient to collate all the documentation to organise a switch, few people would argue it's not worth the effort once they know how much money could be going back into their pocket.

The third reason would appear to be a belief in the wisdom of the

crowd, in this case misplaced wisdom. People are aware of switching but don't see family and friends doing it, so they are wary and believe there must be a catch.

A fourth reason could be that a mortgage — although it is most people's single biggest financial outlay each month — is not something people review every year, two years or even five years. People often review smaller household costs such as home insurance, car insurance and health insurance when the policy comes around for renewal. Mortgages don't have renewal dates, so they lack that call to action that prompts a person to take stock of their finances and shop around for a better deal.

Reason number five is the banks' best friend: simple inertia. A recent survey by the Association of Expert Mortgage Advisers (see panel) found that 18% of people — nearly one in five — wouldn't switch even if a better value mortgage were available.

## Who should be looking to switch?

It goes without saying that switching should be considered



only by those on SVR mortgages. Those on tracker mortgages should continue to guard them with their lives, no matter what incentives the banks dangle.

So which SVR mortgage holders are likely to be able to get a better deal on their mortgage? There are several factors that will weigh heavily on your bargaining power, the most important of which is LTV.

It stands to reason that banks strongly favour lower LTV rates. People who have bought a property in which the value has risen and people who have made a significant dent in paying down the mortgage — or a combination of both — are in a really good position when it comes to shopping around for a switch.

The magic number in LTVs is 80%. At anything under 80% LTV, banks are likely to slash the interest they charge significantly. This applies equally to new mortgages — the lower the LTV, the lower the interest rate.

#### How do I get a better deal?

The first step to a better mortgage deal is an easy one — you can ask your existing lender for a better deal. Alternatively, ask an expert to scour the market for you and identify several potential lenders who have good value to offer you.

After that, it's a case of getting the relevant documentation in order, as you would if you were applying for your first mortgage. There are a few differences to a first-time mortgage application, in that you are not expected to show a very strong savings habit and the banks often allow for some degree of flexibility when it comes to stress-testing your repayment ability.

Then it's a matter of selecting a lender and submitting your application. So how much can you save? The answer is anywhere from thousands of euros to tens of thousands over the lifetime of the mortgage.

Currently, the average reduction for a remortgage would be more than 0.5 percentage points. Having a lower LTV threshold is generally the reason for this decrease.

#### What will happen to the rates?

Talk of penalising those banks that don't play ball with increased levies looks like something that would be extraordinarily difficult to implement, and the aftermath could be catastrophic.

Honohan said he had a "firm conviction that the administrative control of interest rates would be bad for the country as a whole". Government intervention, he said, would have "a stultifying effect on bank efficiency" and a "chilling effect" on bank competition.

It could also have unintended consequences for other sectors, such as foreign direct investment. What view would international companies take of a country where the government controls interest rates?

Even in the absence of intervention, it seems likely banks will bring down their rates at some point in the not too distant future. In the meantime, some people — though not all — have a choice about which lenders they give their mortgage business to, and they need to exercise this choice.

In the longer term, competition will be the true driver of rates. There is surely an opportunity for a new or even existing lender to gain market share by offering rates that are considerably more competitive than those on offer.

If any bank wants market share — and surely all banks want more customers — all it needs to do is price aggressively and win more business. This should — and would — negate the need for any government interference.

*Ken Murray is founder of Finance Solutions and a director of the Association of Expert Mortgage Advisers*





Shopping around is for homeowners as well as hunters; inset, Honohan

A small thumbnail image of a newspaper page, likely from The Sunday Times, showing a table of data. The table has multiple columns and rows, with some cells containing numbers and others containing text. The page is titled 'Best Buys' and 'eClips'.