

Doh! I could have saved €10,000 if I'd switched

Banks have been told to give customers a nudge but it isn't hard to find a better mortgage if you get off the couch. By **Mark Channing**

Thousands of homeowners are paying too much for their home loans by not taking advantage of cheaper deals. Most of Ireland's 300,000 variable rate mortgage holders could save money by negotiating with their bank or switching to a cheaper lender, say experts.

"Inertia is the biggest weapon any bank has to keep customers on high interest rates," said Michael Dowling of the Independent Mortgage Advisers Federation. "The majority of those on variable rate mortgages are simply paying too much."

Earlier this month the Central Bank of Ireland announced new measures designed to tackle inertia in the mortgage market. The measures will force lenders to be more transparent about their interest

rates and to give more information to variable rate customers about cheaper options.

Those on tracker mortgages, meanwhile, are already on the best deal, while fixed-rate mortgage customers cannot switch without incurring a penalty.

Lenders have until February 2017 to implement the Central Bank's new measures. We tell you how to cut mortgage costs now.

NEGOTIATE WITH YOUR BANK

Variable rate mortgage holders should contact their existing lender and ask them for a better deal, say experts. "Before switching, I always advise borrowers to call their lender first," said Dowling. "Tell them you are considering switching and ask if there is anything they can offer you."



Most banks will want to retain an existing customer."

All banks 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 loan-to-value (LTV) deal.

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 mortgage. A switch to the bank's three-year fixed rate of 3.45% would yield substantial savings.

Permanent TSB (PTSB) variable rate mortgage holders meanwhile should take advantage of its new mortgage pricing structure, which is guaranteed to save them money. Last year the bank wrote to more than 70,000 customers on its standard variable rate of 4.5% and offered to discount their mortgage rate by up to 0.8% depending on how much equity they had in their home.

According to PTSB, the offer is worth €10,000 to borrowers with a €100,000 mortgage on a house worth €250,000. However, so far, only 14,000 borrowers have pursued the bank's offer.

Ken Murray of the Association of Expert Mortgage Advisers said: "The low uptake of PTSB's offer is staggering. There is no catch. People should really take advantage of it."

SWITCH LENDER

One in five homeowners could save on their mortgage by switching, according to the Central Bank. Research published by the bank last year estimated that 27,000 potential switchers could save more than €10,000 over the lifetime of the loan.

Despite the potential savings, the number of mortgage switchers is tiny. Just 2% of mortgage holders have switched mortgage in the past five years, according to research published by the Competition and Consumer Protection Commission (CCPC) earlier this year.

"The perception of homeowners is that switching mortgage is a huge task, but it's a straightforward process that could end up saving you a lot of money," said Murray.

Lenders are actively trying to attract switchers by offering cash deals to offset solicitor's fees involved in changing mortgage deals. PTSB, Bank of Ireland and EBS will give switchers 2% cashback on the value of loans. KBC will pay €2,000 towards mortgage switchers' legal fees while Ulster Bank will pay €1,500.

Murray advised switchers to focus on the mortgage rate your new lender is charging, rather than its switching deal.

OVERPAY

You can cut the overall cost of your mortgage and be debt-free sooner by making regular overpayments.

"If you can afford to pay more on a monthly basis then overpaying makes absolute sense," said Dowling. "It not only reduces the total amount of mortgage interest that you'll end up paying but you'll also clear your mortgage quicker."

Most homeowners aren't aware of the full cost of their mortgage. Research published last month by Mortgage Brain Ireland, which created the IrishMortgages app, found that almost seven in 10 consumers don't know how much interest they will end up paying their lender over the life of their mortgage.

Suppose you have a €250,000 mortgage at 3.8% over 25 years. Your regular monthly repayment to pay off the loan would be €1,293. By paying an additional €250 a month you would save more than €36,000 in interest payments and clear the mortgage a full six years earlier.

Only homeowners on variable rate or tracker mortgages can elect to overpay. Those on fixed-rates do not have this flexibility because banks will charge a penalty for making overpayments.

MORTGAGE PROTECTION

Homeowners can potentially save thousands of euros by switching to a cheaper mortgage protection policy. Mortgage protection is a form of life insurance used to pay off your mortgage should you die before the end of the term. All homebuyers under 50 are legally obliged to buy a policy when taking out a mortgage. Banks typically offer to arrange the insurance when giving a home loan, but they don't have to find you the cheapest policy.

Karl Deeter of Irish Mortgage Brokers said: "One of the mistakes people make when taking out a mortgage is that they buy their mortgage protection policy direct from the bank. When you do that you're not going to be sure of getting the best deal in the market."

There is nothing stopping you from switching mortgage protection during the term of your mortgage. Households can make savings of up to €270 a month by switching, according to the CCPC.



Consumer network One Big Switch claims to have negotiated a group-discounted mortgage protection offer with Irish Mortgage Brokers that is 17.5% cheaper than the best available premium on the market.

HOME INSURANCE

Repricing your home insurance is another way to save on the cost of your mortgage.

Lenders require all homebuyers to take out home insurance to cover the rebuild costs of their home if it is destroyed.

Like mortgage protection insurance, lenders typically try to sell you a policy at the time of taking out the loan which may not be the cheapest available.

There can be a massive difference in the cost of home insurance for the exact same level of cover.

Insuremyhouse.ie, a broker, found a difference of more than €500 between premiums to insure a three-bedroom semi in Dublin 16 with a rebuild cost of €200k and contents cover of €40,000.

RENT A ROOM

Homeowners can make up to €1,000 a month in tax-free income by renting out spare rooms to lodgers. Last year the government increased the tax-free threshold for income earned under the Revenue's rent-a-room initiative from €10,000 to €12,000 a year.

"Over 30 years that €12,000 could pay off a mortgage of €205,000 at a 4.3% interest rate," said Deeter.

You can also make extra cash to put towards your mortgage by renting rooms for short stays using an accommodation platform such as Airbnb. This income is taxable, however, so you will have to file a tax return. Last year 7,200 Irish hosts earned an average of €2,600 each by taking paying guests into their homes using the site, according to Airbnb.



