



# Early signs of competition in the mortgage market



Fiona Reddan

Variable rates are rising just as tracker mortgages enjoy ECB rate cut

Come June, there will be a curious dichotomy at play in the Irish mortgage market. Those with a standard variable rate mortgage from either AIB or EBS will see the cost of servicing their loan jump – with rates at AIB jumping by 0.4 per cent up to 4.4 per cent, and those at EBS rising by 0.25 per cent to 4.58 per cent.

On the other hand, thanks to last week's decision from the European Central Bank, property owners with a much-valued tracker mortgage will see their cost of borrowing slide by another 0.25 per cent. This means that those lucky borrowers with a mortgage of as low as ECB+0.5 per cent will be paying just 0.75 per cent on their borrowings.

It's an incredible differential, which means that €100,000 in borrowings will cost a person on a standard variable rate about €500 to service compared with just €310 for someone on the cheapest available tracker.

But if you are stuck on an unattractive variable rate, can an initiative from Permanent TSB help ease the burden?

## LTV mortgages

Launched last week, its new loan-to-value (LTV) mortgage is aimed at first-time buyers, those looking to switch their mortgages and those trading up or down. Similar to a product launched by Danske Bank back in the boom years, Permanent TSB is offering a discounted rate of 3.95 per cent for those with either an outstanding or new mortgage that has an LTV of 50 per cent or less. This means that the loan on the mortgage must not exceed 50 per cent of the value of the property – so a mortgage of €150,000 on a property valued at €300,000 would qualify, for example.

The rate increases as the LTV does, so those with a LTV of 60 per cent will pay interest at 4.05 per cent, rising to 4.45 per cent for those looking to borrow up to 90 per cent.

At first glance, the product has its appeal. If you can afford to buy a new house and pay 50 per cent of it up-front, you will pay 0.5 per cent less in interest each month.

For example, if you buy a house for €500,000, and put up €250,000 in cash, your total interest payments over 30 years (at 3.95 per cent) will come to €177,083.

On the other hand, if you have to go for a 90 per cent mortgage at 4.45 per cent, that same property will cost you almost double that in interest payments – €366,024. The benefits of borrowing less and doing so at a lower rate are very clear.

The trick with getting the new rate is to have the funds to pay down the cost of the property at inception – if you manage to reduce the LTV over the life of the mortgage it won't impact on the rate you're paying. And that of course won't be easy.

While banks such as AIB and Bank of Ireland also offer a discount for having a lower LTV, it's not on a similar scale to Permanent TSB. However, it's something we're likely to see more of.

"It's 'once bitten twice shy' in terms of the banks doing very high LTV mortgages. Now, they think 'if we can get a good customer in terms of a lower LTV that makes a lot of sense to us as it's a customer we won't have a problem with'," says Trevor Grant, chairman of the Association of Expert Mortgage Advisors.

However, the new products are unlikely to attract a large number of takers. If you're in negative equity, you won't be considered. And, given the difficulties in actually getting a mortgage, it may not appeal to a broad switcher market either.

"Whether there's people out there with sufficient equity who would be justified in switching would be questionable," says Grant.

Also, while the rates on offer are undoubtedly more attractive than headline standard variable rates, the discount is not as significant as might have been expected. After all, from a bank's perspective, taking on a mortgage with a 70 per cent LTV is dramatically different from taking one on with a LTV of 90 per cent – and a differ-

ential of half a percentage point in the interest rate might not accurately reflect this different risk weighting.

"It's not a huge premium; it's an opening gambit to try and attract business," agrees Grant, adding that Permanent TSB is probably looking to "make up for lost time when they weren't lending".

Margins have, of course, become key to the restructuring and resuscitation of the banking sector. Given that banks will be nursing the losses they took on their tracker mortgage books for some time to come, from their perspective it's key that any new products they introduce come with an attractive margin.

It's also worth noting that the new rates are variable – and so can be increased at the whim of the bank, which could leave you exposed. The new product won't be made available to existing customers of the bank.

However, if you think that you have a low LTV and could benefit by switching, you could consider cancelling your existing mortgage and taking out another one with the bank.

Brendan Burgess, of askaboutmoney.com, has put a cost of about €800 on the legal fees involved in "switching" your existing mortgage with Permanent TSB to one of the new options.

## Mortgage acceptance

The other question that might arise is whether or not you will even be offered the opportunity to switch.

"There's no doubt that getting a mortgage is much more difficult than it was," says Grant, adding, "if you're applying for a mortgage now, you've really got to pre-plan and cut out habits that you might have such as overdrafts."

"There is more credit available now than there has been at any stage in the last five years but it's difficult to get one because of the scrutiny applied. You've got to put a lot of thought into your application, and make sure that your income stacks up and you have to demonstrate you have a repayment capacity," he advises.

## Variable rates

If you don't think you can benefit from the



new product model, and you are on a standard variable rate, the only other option is to fix your rate. However, if this is not a more attractive option, you might take heart from Grant's assertion that banks are unlikely to keep pushing mortgage interest rates up.

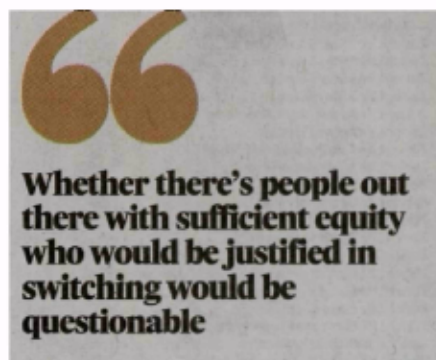
"Banks need to be very careful. Pushing rates up for new business is one thing, but for existing customers if you do that, how many more customers will you tip over the edge into arrears?"

## Act now?

Finally, if you are in the market for a mortgage, it might be worthwhile to consider this. Given that banks assess your suitability for a mortgage based on a stress test of +2 per cent or so above current rates, if banks push the rates up your affordability is likely to diminish. With trackers no longer available, all these stress tests are based on either variable or fixed rates, which are also far in excess of the rate determined by the ECB.

"In principal, if you got approved for €200,000 (before a rate increase), it's possible that you'll get approved for less afterwards," notes Grant.

So, if you're thinking of going to AIB to ask for a mortgage, it might be prudent to do so now, rather than wait until they add another 0.4 per cent to their stress test come June.



■ High life: a new loan-to-value mortgage from Permanent TSB offers lower variable interest rates for those with lower loan-to-value ratios. Below right: ECB president Mario Draghi – cut interest rates last week. Below left: Trevor Grant, chairman of the Association of Expert Mortgage Advisors. PHOTOGRAPHS: CYRIL BYRNE AND YURI GRIPAS/REUTERS

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