



Take a long, hard look at mortgage cash-back offers

Consumer interests

John Hearne learns why mortgage advisers are wary of deal sweeteners

COMPETITION in the mortgage market is heating up. That's the good news. Experts are warning however that instead of more competitive variable rates, the banks are trying lure us in with gimmicks that could end up costing more in the long run.

Ken Murray is director at the **Association of Expert Mortgage Advisers (AEMA)**. He says first-time buyers in particular need to think twice before being seduced by cash back offers and cheaper home insurance.

"Banks are making aggressive moves in the market to shore up the lucrative first time buyer cohort," he says, "but buyers must do their due diligence before accepting what, on the face of it, might seem like a very generous offer from the banks."

Bank of Ireland has been particularly aggressive in this arena. Earlier this month, it doubled its cash back offer to 2% of the value of the mortgage. This means that if you take out a mortgage worth €300,000, you get €6,000 deposited straight into your bank account. The offer ranges across fixed and variable rate mortgages and applies to first time buyers, movers, switchers and even investors. What's more, it's not capped. If you draw down half a million, you get cash back of €10,000 within 45 days of the drawdown. The offer currently applies to all mortgages paid out before the end of the year.

It sounds great but bear in mind that Bank of Ireland's variable mortgage rates are among the highest in the market. When AIB and EBS cut its mortgage rates late last year, Bank of Ireland chief executive Richie Boucher told a Dáil committee that his bank wouldn't "slavishly follow the strategies of other banks" by cutting rates. He said that the margin that the bank makes on these mortgages was not exorbitant.

Since then, the bank has cut its rates, but most of the action has come on the fixed side of the house. To check out the real value of that 2% offer, it's worthwhile crunching the numbers.

If you were to take out a €225,000 mortgage over 25 years with Bank of Ireland, based on a loan to value in excess of 80%, you will be charged an initial interest rate of 4.5%. This compares with a rate of 4% from AIB for an identical mortgage.

Plugging those figures into the Competition and Consumer Protection Commission's mortgage calculator, you find that your monthly repayments with AIB for this mortgage come to just over €1,190, compared to €1,250 with Bank of Ireland. That's a difference of €60.

We don't of course know what will happen to that €60 differential over the 25 years of the mortgage, but assuming for the purposes of this exercise that it stays the same, the additional cost of

the BOI mortgage over that 25 year period will be €18,000.

So now. Drawing down a mortgage of €225,000 from Bank of Ireland before the end of the year will net you a 2% cash rebate of €4,500. There's your comparison. With Bank of Ireland, you get €4,500 now. With AIB you save exactly four times that over the life of the mortgage.

On the basis of this — admittedly simple — piece of maths, the 2% rebate, which looks great on first inspection, isn't worth it.

Ken Murray again: "Borrowers must remember that while lenders want your business, they also want profit and this is what drives any moves they make in the market. Some deals will have merit and will be suitable for people in particular circumstances, for example, if a client wants the security of a long-term fixed rate."

However, he points out, deals that appear lucrative might end up costing you more in the long term.

"You can't just look at the offer at face value, you must see what's behind it and start asking questions. Only then will you be able to make an informed decision and be confident in your approach."

While Bank of Ireland's offer is one of the most high profile, the other banks have also gotten in on the act.

Ulster Bank is currently offering a €1,500 contribution to legal fees for all new residential mortgage drawdowns between now and September 11. The offer applies across the entire residential mortgage product range and includes first time buyers, movers and switchers. The minimum mortgage amount is €40,000 and the maximum loan to value (LTV) is 90%.

In KBC, first time buyers get 50% off the cost of home insurance for the first year while switchers get that plus €1,000 cash back. Again, this rebate is being sold as a contribution to legal fees. Payment is made to the custom-

er within 30 days of the mortgage drawdown, the offer is currently running until the end of the year and it excludes buy-to-let properties.

Permanent TSB is offering a €1,000 legal fee contribution, currently available to first-time buyers, second-time buyers and switchers. To qualify, you have to have received your first mortgage letter of approval from PTSB between January 1 and December 31 this year.

The other key condition here is, unless you already have one, you must also open a PTSB current account, which you will use to repay the mortgage. You must also have paid at least €1,500 into that account no later than five weeks from the date of issue of the loan cheque.

Ken Murray at the **AEMA** suggests that before you make any decisions, ask some questions. He points out that while value for money is vital, it's not all about crunching numbers.

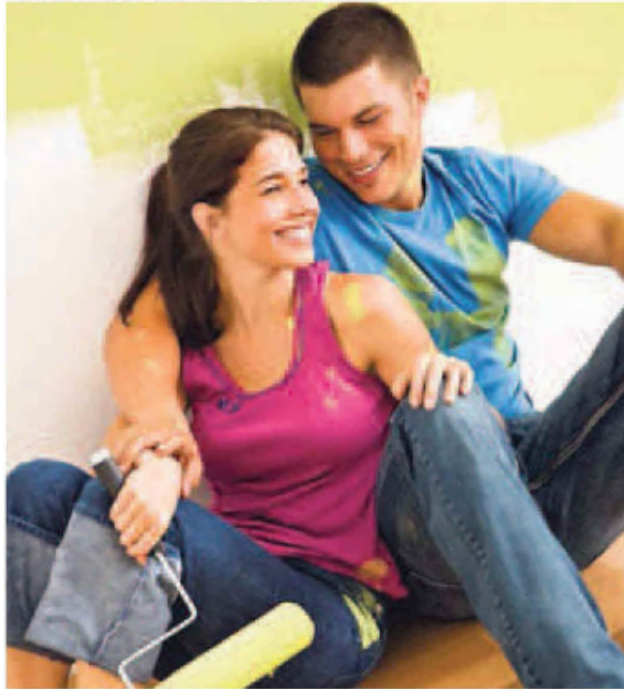
"You would often hear a friend say that they are not going to go with a certain telecoms or utility provider because they're a nightmare to deal with," he says. "Less consideration is given to mortgage lenders because people are just so anxious to get their application approved. But think of it this way: You can usually change your phone supplier in a year or two. You're going to be with your mortgage lender for a lot longer than that."

Always compare what that lender is offering against the market average. If one particular offer appears to be much more generous than all the rest, says Murray, then that must raise some red flags.

"Why is the lender doing this?" He asks. "How will they recoup any lost funds from those deals? What's the net benefit of going to this lender above others?"

He concludes: "I don't want to sound too cynical. There are some good offers out there... but the one that

looks the best on the face of it, the one with all the bells and whistles, is often the one that poses the most questions about ultimate value."



Home buyers should seek advice before signing mortgage contracts.