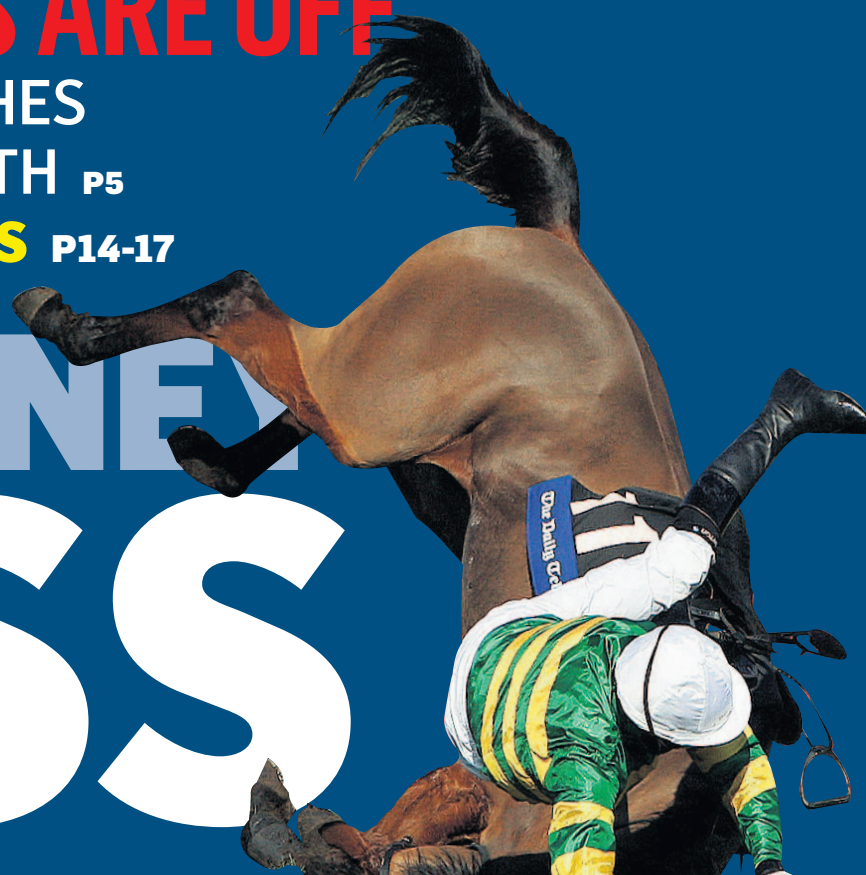




**BE A WHEELER DEALER**  
WHY THERE HAS NEVER  
BEEN A BETTER TIME TO  
DRIVE A BARGAIN P13

**ALL BETS ARE OFF**  
RACING CRASHES  
DOWN TO EARTH P5  
**APPOINTMENTS** P14-17



09.11.08

THE SUNDAY TIMES  
timesonline.co.uk/business

Section 3

**+ MONEY**

# BUSINESS

## Banks fail to pass on rate cuts

Niall Brady

HOUSE hunters and buy-to-let investors are set to lose much of the benefit of falling interest rates because leading lenders will only commit to sharing the full reductions with owner-occupiers on their books.

The move is likely to keep many buyers out of the property market, dashing hopes that cheaper interest rates would halt the plunge in house prices.

All lenders have promised to share recent interest rate reductions in full with homeowners who have standard variable rate mortgages, including the half-point cut by the European Central Bank (ECB) on Thursday. Those on tracker mortgages will benefit too.

Six institutions — Bank of Ireland, Permanent TSB, Ulster Bank, First Active, ICS Building Society and KBC HomeLoans — no longer offer standard variable rates to new borrowers, however. Permanent TSB is refusing to pass any of the recent cuts in interest rates to new borrowers, so they will pay up to 1 percentage point more than existing customers.

Bank of Ireland, ICS and KBC are withholding some of the

recent interest cuts from some existing customers as well as new borrowers.

Investors are losing out. EBS Building Society and First Active have frozen their buy-to-let rates.

John Beggs, chief economist at AIB Global Treasury, predicted last week that housing could be more affordable next year than at any time since 1997, but only if lenders share falling interest rates in full. Banks are under intense pressure to cut mortgage rates after the ECB reduced interest rates for the second time in a month last week. The move brought the ECB rate to 3.25%, 1 point lower than at the start of October.

Karl Deeter, operations manager at Irish Mortgage Brokers, warned borrowers that they should not take lenders' assurances on rate cuts at face value. "They're using language that makes it seem everyone will benefit," he said. "Mortgage holders need to analyse the small print to learn what's really going on."

The selective mortgage reductions allow banks to target the most vulnerable borrowers, says Deeter. "Those least able to switch to other lenders

if they're dissatisfied are buy-to-let investors and first-time buyers," he said.

"Investors in particular have no other port of call because they'd probably only qualify for a 50% mortgage if they tried to switch. Lenders can do what they want and, in the current environment, there's very little that borrowers can do about it."

Permanent TSB cut rates for existing customers on Friday, with those on 90% mortgages seeing the rate fall from 5.85% to 5.35%. Another cut to 4.85% will follow in December.

New customers, however, will be charged the old rate of 5.85% — an extra €2,134 a year in interest on a €300,000 mortgage paid over 25 years.

Bank of Ireland cut rates for many 90% borrowers, new and existing, from 5.65% to 5.35% on Monday and promised another cut to 4.85% next month.

Buy-to-let investors may get no relief from falling interest rates. EBS has held its variable investor rate at 5.88%, ignoring the ECB interest cut in October, and has pledged to share last week's reduction only with owner-occupiers. First Active has frozen buy-to-let rates, charging investors 6.35%.

## AIB seeks €1.2bn for American M&T stake

Brian Carey

ALLIED IRISH BANKS is to seek up to €1.2 billion from a sale of its 24% in M&T, the US regional bank, but the timing of any disposal will be influenced by equity markets and the strength of the dollar.

Bank management gave the clearest indication yet of its price expectations in a sale of the M&T holding on a conference call to analysts last week.

John O'Donnell, the finance director, said the proceeds from the sale were "a moving feast". He illustrated that the huge volatility in the equity markets,

with share prices rising or falling 10-15% in a day, and vicious currency markets, made pricing of a placing in the current market difficult. He added, however, that a value of €1.2 billion "would not be far off".

The sale of the M&T stake is now considered a near certainty by analysts. AIB acquired the stake when it sold Allfirst, the troubled AIB American subsidiary, to M&T, in 2002.

The bank said it is currently formulating a plan to increase its capital reserves without diluting existing shareholders.

On the conference call, AIB management also revealed that

more than a third of its bad debt provision in the Irish market is related to non-property loans.

This year, AIB will take a total bad debt charge of €700m in its Irish banking operations.

Some €250m of the charge relates to businesses outside of property and construction, indicating that the bank envisages that the recession will have an impact across its business loan book. "We are not ignoring the broader downturn in the Irish economy," said Eugene Sheehy, AIB's chief executive. The bank is "tackling aggressively" debt problems outside property.

AIB: we stand firm, page 6

### JEWELLER SHOWS HER METTLE



## Winter fair brings out gems

DESIGNER Mette O'Connor, of Amoc Jewellery, shows off a piece from her range, which she will be exhibiting at the Winter Fair in Dalkey next weekend. Organised by Dun Laoghaire-Rathdown County Enterprise Board, which recently named O'Connor Female Entrepreneur of the Year, the event gives

Christmas shoppers the opportunity to sample fine Irish jewellery, designer knitwear, textiles, ceramics, fine art, fashion accessories, hand-made cosmetics and gourmet foods. The fair will take place at Dalkey Castle and Heritage Centre next Saturday and Sunday and entrance is free.

## New Vodafone boss to slash costs

James Ashton

THE new Vodafone chief executive Vittorio Colao will this week outline a fresh cost-cutting programme as he reveals how the mobile-phone giant has been hit by the drop in consumer spending.

Analysts reckon that Colao, who succeeded Arun Sarin in July, can easily strip out another €1 billion (€1.22 billion) from the company's cost base.

Some think up to 20% of Vodafone's workforce in western Europe could be at risk over time.

"Whether they set a target now or in May, there will have to be a cost plan," said Terence Sinclair, telecoms analyst at Citigroup. "€1 billion is just 3% of sales."

The company is expected to report that trading has remained tough in Spain and Britain. Sarin signed off by reinsuring in sales forecasts for the year.

Since then, Vodafone's shares have tumbled 20% on fears that it may not be such a defensive investment during a recession. On Tuesday it is expected to post a half-year operating profit of €5.7 billion on sales of €19.8 billion.

Most of the new savings will be made in the mature mobile-phone market of Europe, where Michel Combes arrived as boss on October 1 to replace Colao. Combes is expected to continue expanding broadband operations,

although he is cautious about spending right now.

Last week, the company won control of South Africa's Vodacom after paying €1.4 billion for a 15% stake, taking its holding to 65%. Colao wants to use Vodacom as a platform to consolidate Africa's emerging mobile market.

"There are probably a number of smaller assets it can buy in Africa," added Sinclair. "Africa is the next India for Vodafone."

**vodafone**

**Need a better fit?**

We realise that in business one size doesn't fit all. Let us tailor your price plan and see how much your business can save.

FreeFone 1800 800 223 today

**Make the most of now**