

## MONEY



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HER FAVOURITE PIECE  
OF FINANCIAL ADVICE **P13**

# Outwit the banks on trackers

Homeowners should avoid being lured into ditching generous mortgages, warns **Niall Brady**

**BANKS** and building societies are robbing new customers of the benefits of falling interest rates by scrapping tracker mortgages — the only home loan with a lifetime price promise.

Some lenders are also luring existing customers away from trackers, because the price promises are so generous that these loans are costing them money during the current financial turmoil. The Financial Regulator warned homeowners last week about the danger of being hoodwinked into making mortgage switches they could regret.

Banks are facing intense scrutiny after the government was forced to prop them up by guaranteeing all deposits and bank borrowing for the next two years. They quickly agreed to pass on to borrowers the half-point reduction in interest rates, announced by the European Central Bank (ECB) at the start of the month. As taxpayers, these borrowers have underwritten the government's unprecedented €500 billion bailout of the banks.

Lenders show every sign of clawing back most of the benefits, though, by withdrawing tracker mortgages for as many customers as possible. Trackers shadow the ECB rate by a fixed margin for life, with the best ones priced at 0.5%-0.75% over ECB. This is less than banks' own cost of funds, which has soared because of the credit crunch.

Peter Bastable, the managing director of Simply Mortgages, a broker, said: "Banks sold thousands of trackers in recent years and now it's costing them more money by the day. These loans are going to become seriously bad news for lenders unless funding costs come down soon."

Instead of tracker mortgages, banks want borrowers to fix their rates, or to switch to new loan-to-value (LTV) mortgages, where the interest rate depends on the percentage of a house's value that is borrowed. The catch is that, unlike trackers, banks are free to manipulate LTV rates at will, so that borrowers might not benefit from future rate cuts.

IIB Homeloans, for example, recently offered tracker customers the chance to switch to a two-year fix of 5.25%, which may have looked like a smart move after the ECB raised interest rates in July.

Michael Dowling, president of the Independent Mortgage Advisers' Federation (Imaf), said: "We were concerned that this offer went out to clients without any mention of the need for independent advice from brokers. The offer sounded attractive, but those who took advantage of it were giving up the security of mortgages that tracked the ECB rate by margins as low as 0.75%-1%. When the two-year fix expires, borrowers will switch to a variable rate with no option to go back to a tracker."

Here, we tell homeowners how to outwit the banks' latest ploys.

## Are trackers still available?

Bank of Scotland is giving tracker mortgages — but only until November 4. Those borrowing less than €250,000 will pay 5.55% interest (the ECB rate is currently 3.75%, plus a margin of 1.8%) — a monthly payment of €925.50 on €150,000 borrowed over 25 years.

Leeds Building Society also offers a tracker but, with a hefty margin of 2.2% over the ECB rate, its rate of 5.95% is not competitive. Leeds requires a deposit of at least 30%, whereas Bank of Scotland looks for at least 10%.

## What's the alternative?

Fixing is unlikely to pay off, because the ECB is expected to keep cutting rates next year. This makes variable mortgages a better bet, with the best deals reserved for those with a large proportion of equity in their homes.

National Irish Bank charges 5.15% variable for those borrowing less than 60% of the value of their homes, and 5.4% for those borrowing less than 80%. Bank of Ireland has a variable rate of 5.6% for LTVs up to 92%, but only for mortgages greater than €500,000. For smaller amounts, the rate is 5.65%.

Standard variable rates can be even lower. Halifax will charge 4.9% on mortgages of up to 90% from next weekend. Allied Irish Banks will charge 5%, with a maximum mortgage of 92%.

The catch is that lenders can change these rates whenever they wish, though they will face intense pressure to share future rate reductions with borrowers.

Suzanne McGuinness, the marketing manager with IFG Mortgages, a broker, said: "All lenders passed on the recent half-point decrease by the ECB, which is good news for those looking at their options at the end of a fixed-rate term. It's some comfort to know that mortgage rates controlled by the banks, such as standard variable rates, are moving in line with the ECB, given that further reductions are expected."

## What's so good about trackers?

Borrowers on the best tracker deals are paying about 4.5% interest. That adds up to €933 a year on €150,000 borrowed over 20 years compared with Permanent TSB's standard variable rate of 5.44%. This tracker also promises to shadow the ECB rate by 0.75% for life.

Karl Deeter, the operations manager at Irish Mortgage Brokers, said: "Trackers at ECB plus 0.75% will never be offered again. If you have one, you're sitting on a valuable asset."

The Financial Regulator has warned borrowers that switching from a tracker could be a serious mistake, no matter what lenders are offering. Mary O'Dea, the regulator's consumer director, said: "Customers who may be offered an incentive to switch from tracker mortgages should ask their lenders or brokers for a clear, written explanation of why this is a more suitable option."



Deirdre Keenan, pictured with her children TJ, 8, Tegan, 3, and Ceola 5 weeks, is still waiting to hear whether Permanent TSB will pass on the interest rate cut this month

Lenders are applying subtle pressure, as well as incentives, to persuade borrowers to abandon trackers. Dowling said that those looking to top up their mortgages are being told they will only get approval if they agree to switch to a variable-rate deal. Lenders are telling other borrowers that they can continue to make interest-only payments, provided they abandon their tracker guarantees.

"There's a concerted effort by all lenders to entice customers off trackers, including the use of underhand tactics," he said. "Don't give up your tracker — unless you've no other choice."

## How can I get the best deals?

Borrowers with the most equity get the best deals, because they represent the lowest risk for lenders. Equity is under threat, though, from falling house prices. The best way to protect it is to overpay the mortgage, maintaining repayments at existing levels even as interest rates fall. Just make sure to clear this with the bank first as there may be an administration charge.

Suppose a borrower had a house valued at €420,000 today and a mortgage of €252,500 (60% of the property value) on a three-

year tracker at 5.44%. The monthly payments would be €1,538 over 25 years, although this would fall by €285 a month if the ECB rate dropped by another 2%.

If house prices fell by 10% over the three years, the loan to value would increase to 61.3%, denying the borrowers access to the best deals available when they come to remortgage.

If they had used the savings to overpay, however, the outstanding mortgage would be €221,098 after three years, giving a loan to value of 58%.

But not all borrowers should overpay their mortgages, even if they have the spare cash. John Lowe, the managing director of Providence Finance Services, a broker, said: "You can earn 6% on deposit, which is 4.8% after deposit interest retention tax (Dirt). If your mortgage costs less, it doesn't make sense to pay it off early because you could earn more in the bank."

"Mortgages are the cheapest credit available, so it's madness to pay it off early if you've got other, more expensive debts, such as credit or store cards. I would also advise people to prioritise spare cash to build up a rainy-day fund of three to six months' income to

cover them for emergencies, sudden loss of income or to take advantage of investment opportunities."

## What happens if I lose my job?

Borrowers can purchase repayment protection insurance to cover their mortgage payments for up to a year if they lose their incomes because of accident, sickness or redundancy.

Imaf brokers sell a policy that costs €4.35 per €100 of mortgage payment, or €43.50 a month on a payment of €1,000 a month. Borrowers must have the policy for at least six months before making a claim, and insurance firms will reject claims from those who knew their jobs were under threat when buying the policies.

The result is that only 40% of claims may be successful, according to Dowling. "If you're considering taking it out, don't wait until things get worse," he said. "It's too late by the time redundancies are pending."

Even when claims are successful, the policies only pay mortgages for up to a year. "It buys you some breathing space, but it's not a panacea," said Lowe. "When the year is up, you're back to square one."

## Decision not to fix pays off

**When the banks didn't even seem to know which way rates were going the Keenans opted for a variable deal**

IT is almost three weeks since central banks around the world announced an emergency half-point cut in interest rates, but Deirdre Keenan, 29, and her husband Anthony are still waiting for Permanent TSB to tell them how much the cut will knock off their mortgage of €1,500 a month.

"Our next payment is due at the end of the month, but we've received no notification yet of what the new payment will be, or whether we'll have to wait until November for the reduction to come through," she said. "We're hoping, though, that this won't be the last interest cut."

The Keenans arranged their first mortgage eight years ago through broker Jimmy Cumiskey of European Mortgages in their home town of Dundalk, Co Louth. The deal was done just before the birth of their first child, son T.J. Since then they have had two daughters, Tegan, 3, and Ceola, born five weeks ago.

Their growing family led the Keenans to trade up to a bigger house three years ago, sticking with European Mortgages to arrange the new home loan. They decided on a two-year fixed rate with Permanent TSB at 4.25%. "It turned out to be a good decision because of the way interest rates crept up," said Keenan.

When the fixed deal ran out in October, however, the Keenans decided to move to a variable rate. The rate at the time was 5.1%, higher than what they had paid on the old two-year fix, but lower than what it would have cost to fix again.

Switching to a variable deal turned out to be a wise call because, while interest rates rose by a quarter-point last July, this was reversed by the latest rate move and economists predict that more cuts are on the way.

"We decided to go variable because, at the time, even the banks didn't seem to know which way interest rates were going," said Keenan. "I know people who decided to fix instead, some for up to five years, and now they're stuck with mortgages where they're paying way over the odds."

**Niall Brady**

# Comparison sites are fine, but only if you have the power to switch

## NIALL BRADY COMMENT



Phone tariffs seem designed deliberately to confuse, so that no two packages are directly comparable. Callcosts cuts through the camouflage, identifying serious savings for households willing to take a few minutes to consider when and how they use their phones and the internet.

Its success seems to have rubbed off on other industry regulators, most notably the Commission for Energy Regulation, which launched energyconsumers.ie last week. The website advises consumers on their rights when dealing with energy suppliers such as the ESB and Bord Gais, and tells them what to do if they have problems with their bills or energy supply.

Price comparison calculators, though, are not needed on energyconsumers.ie because ESB and Bord Gais are state monopolies with single take-it-or-leave-it tariffs for retail users of electricity or gas. They may have special deals — usually poor value — for off-peak users but, by and large, everybody pays the same.

The need for more competition, if we needed a reminder, was hammered home last week when Bord Gais sought a 5%-8% price hike from January, on top of last month's 20% increase. The ESB is believed to be planning something similar.

No amount of competition can insulate us from rising energy prices, but

it would give greater choice over a key part of the household budget, with gas bills averaging €910 a year and electricity costing households €736 a year on average.

British consumers, for example, can lock into fixed-priced energy tariffs, giving peace of mind that prices cannot rise during the fixed period. It is not a silver bullet solution — there is the risk of losing out if energy prices fall — but at least it would be nice to have the choice.

The retail market is theoretically open to competition — an all-island electricity market has existed since last year. Until it becomes a reality, though, the only way to cut down on your bills is to use energy sparingly and more sensibly.

If that does not work, check out the advice on energyconsumers.ie on what to do if you fall into arrears.

## Rich Dad, poor timing

Successful investing relies on two key ingredients: luck and timing. Whatever about luck, Robert Kiyosaki seems to pick odd times to preach his gospel in Ireland.

The creator of the Rich Dad, Poor Dad phenomenon, an anecdote-heavy guide to investment success that has spawned innumerable spin-offs and imitators, first swept into Dublin in 2003. At the time, it was an inhospitable place for those hoping to put Rich Dad's doctrines into practice.

He advises using other people's money — the banks' — to invest in property. Not any old property, though. Rich Dad is interested only in the little gems that others have overlooked.

Credit was the easy part in 2003 — too easy as we now know to our cost. Good property deals, though, were thin on the ground, even for ardent bargain hunters. Kiyosaki advised investors to pay no more than €120,000 for city centre apartments renting for €1,200 a month. Property may be in freefall, but buyers holding out for these prices still have a long wait on their hands.

Undeterred, the Rich Dad roadshow rides back into town this week, although Kiyosaki will not be putting in a personal appearance. The faithful will find it a lot easier this time around to pick up the types of deals favoured by Rich Dad — foreclosed property that banks are selling off at knockdown prices.

Rich Dad is also rallying the troops by putting a positive spin on Ireland's €500 billion bank guarantee scheme. "Irish banks should now see a large influx of cash from Irish and international savers, meaning they will be able to lend much more freely on mortgages," according to the advertising blurb.

Really? The government might not be best pleased if its guarantee is abused by

returning to the credit free-for-all of the recent past. In any event, banks have little stomach for a return to their former ways. IIB Homeloans, for example, said last week that it would no longer allow buy-to-let investors to leverage off existing properties in order to expand their portfolios.

Rich Dad's pitch is seductive to wage slaves searching for something better. Plans built on cheap property and easy credit, however, may prove as elusive as dreams of financial freedom.

## Take it to the bank

Falling interest rates are generally seen as positive — unless you are a saver. Banks and building societies are so desperate for cash that they have delayed passing on the latest cuts to deposit customers. They cannot hold out much longer, though, and already some of our Best Buy savings products have disappeared.

Permanent TSB has pulled its 10:10:20 account, which paid 10% fixed over 20 months. Returns for monthly savers have been pruned too, with Allied Irish Banks, EBS and Irish Nationwide dropping rates to 7%.

Those with lump sums should still find a few banks willing to pay up to 6% interest fixed for 12 months. But don't delay.