



PARALLEL DIMENSION
THE PAIN OF PAYING
TWO PENSIONS P2

APPOINTMENTS P6-8
EDUCATION P5



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Section 4

MONEY

GOLD RUSH
HOW SONIA
O'SULLIVAN
SPENT HER
WINNINGS P4

BRYAN MEADE

Stretch your resources

Top pre-budget tips
on ways to save

REPORT, PAGE 3

Louise Daly saves about
€11 a week by using an
employer pass
tax-saving bus ticket

Regulator probes fixed-rate deals

Investigation is ordered into hidden
home loan penalties. By Niall Brady

JOE MEADE, the financial services ombudsman, has asked the Financial Regulator to investigate fixed-rate mortgages, after discovering hidden penalties and unfair treatment of borrowers when fixed deals come to an end.

The ombudsman, who retires next year, will reveal this week that he has ordered two lenders to refund thousands of euros in penalties that were imposed unfairly on customers who decided to break out early from fixed-rate deals.

He has ordered another lender to return a customer to a tracker mortgage at the end of a fixed-rate agreement. The lender is challenging that decision in the High Court because trackers carry valuable price promises that have turned them into loss-makers for banks and building societies.

The decisions by the ombudsman, who has ordered total refunds of €60m since taking office in April 2005, come as homeowners are being urged to consider fixing at the low rates available before lenders increase the cost of variable mortgages next year as they seek to return to profitability.

Borrowers will want to avoid the experiences of thousands of other homeowners who are trapped by huge early-redemption penalties in older, uncompetitive fixes, preventing them from switching to cheaper deals.

The exit penalty would have been €19,277 last March, for example, for some-

body who borrowed €250,000 from Bank of Ireland in July 2007 and fixed for five years at 5.65%. Banks say they do not profit from the penalties, claiming they reflect what it costs them when customers decide to terminate mortgage fixes ahead of schedule.

The regulator agrees, finding no evidence of profiteering. George Treacy, head

of its legal and consumer departments, told the Oireachtas joint committee on finance and the public service in July: "The information we have received indicates that lenders are seeking to cover their costs in the application of early redemption charges and, in the majority of cases, no additional fees are being imposed."

The ombudsman has found, however, that some lenders keep the penalties hidden — even if they are calculated correctly.

He received a complaint from one borrower who was assured by his building society there would be no penalty — only to be charged €20,000 after he pulled out early from a fixed deal. The ombudsman ordered a refund of the break fee.

Another complainant, who received similar assurances from a different lender, was penalised because he did not end the fixed agreement within 10 days of his inquiry — a deadline he claimed the lender had failed to reveal up front.

The ombudsman ordered a refund in this case too, and has asked the regulator to investigate the extent to which lenders use hidden deadlines to trip up customers leaving fixed mortgages early.

The ombudsman faces a High Court challenge after ordering a third lender to return a customer to a tracker mortgage at the end of a two-year fix. Meade found that the mortgage contract allowed the borrower to return to a tracker, with interest pegged to the European Central Bank rate. The lender is arguing that the customer should move to a variable rate of interest, which it is free to manipulate whenever it wants.

If you have had problems with early redemption penalties, let us know at money.ireland@sunday-times.ie.

BEST MORTGAGES FIXES

Bank of Ireland 1-year	2.35%*
Bank of Ireland 2-year	2.65%*
Irish Nationwide 3-year	3.15%
AIB 4-year	3.57%
AIB 5-year	3.86%
AIB 10-year	4.65%

SOURCE: MoneyMate * First-time buyers

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Will fixing save money?

The experts say it is about peace of mind — not playing the interest-rate cycle. Brendan Nevin, director of consumer banking at Bank of Ireland, said: "Fixing is about certainty. If it would upset you to end up on the wrong side of variable rates, fixing is not for you." With lenders admitting that they will increase variable

rates in 2010, though, current fixed deals look attractive. If you fix, do it for the long term because rates are unlikely to be so low again.

What about breakage penalties?

It depends on when you want to end the deal. "Break fees were unusually large earlier this year because interest rates had fallen so fast," said Nevin. Penalties are lower now — €16,895 compared with €19,277 last March to end a five-year fix at 5.65% on a

€250,000 mortgage from Bank of Ireland.

Will lenders waive the penalties?

They might if you agree to surrender your right to a tracker mortgage at the end of a fixed deal. Karl Deeter of Irish Mortgage Brokers said this would be a costly mistake. "If you give up your tracker, you'll enter a no-man's land when your fix runs out," he said. "You'll be offered a variable rate that your lender can jack up whenever it wants."

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