



Banks that will cost you dear

Switching current accounts can boost your balance but beware tempting offers that could drag you into debt, writes Niall Brady

BANKS have manipulated falling interest rates in recent months, robbing recession-hit households of an opportunity to get their finances in shape.

Lenders are refusing to share lower interest rates if you have a mortgage, while making eye-catching credit card offers that can trap you deeper in debt.

Savers are being offered attractive deposit rates, but you can be penalised for keeping too much money in your account or for making too many withdrawals. Thousands of people who switched banks because of promises to pay 10% interest on current accounts are now earning a small fraction of that amount.

This is a bitter blow if you expected last week's rate cut by the European Central Bank (ECB) to help get your debts under control. Six rate cuts in the past seven months should have cut repayments by €433 a month on a €300,000 mortgage paid over 20 years — but only if your lender passed on all the reductions in full.

Households need all the help they can get as they struggle with job losses or wage cuts. The financial regulator says you can save up to €3,000 a year by making some simple changes. Cutting out take-away coffees and taking packed lunches to work require nothing more than self-discipline.

To take the regulator's advice about switching to a savings account that pays more interest, however, you must be able to navigate the obstacles that banks put in your way.

Here, we tell you how to do it — naming the institutions that play fair and shaming the worst offenders.

Credit cards

The ECB cut its key rate to a record low of 1.25% last week and banks are advertising credit cards that charge no interest on balances transferred from other cards. Beware, though: they may force you to pay off the cheap, interest-free debt first — leaving expensive interest clocking up on all new spending from the moment you make a purchase.

John Lowe, the managing director of the Money Doctor, an independent financial adviser, said: "Banks advertise 0% balance transfers, but they're making huge profits on the rest of your credit card debt. When they allocate all your payments against the 0% debt, the rest of your balance could be hit with interest of 15% or more — it's a false economy."

The worst: Debenhams allocates payments against debts run up on other cards, so 17.9% interest clocks up immediately every time the card is used afresh. MBNA, Postbank, Tesco and Permanent TSB do the same thing, although their rates are lower.

The best: Halifax and National Irish Bank charge 0% on balance transfers and purchases, so their cards are safe to use, at least until the low-interest period runs out.

Allied Irish Banks and Bank of Ireland have similar deals, but only on some of their cards (see chart).

Mortgages

Homeowners with tracker loans have benefited from falling interest rates because their mortgages are pegged to the ECB rate. Those on standard variable rates, however, have been on a rollercoaster ride since 2007, when banks started to manipulate these rates as they struggled with the effects of the credit crunch.

As a result, a huge gap has opened between the best and worst variable rates, trapping thousands of homeowners in uncompetitive deals. The gap is expected to widen following last week's rate cut.

Karl Deeter, the operations manager at Irish Mortgage Brokers, said: "The dearest SVR [standard variable rate] is 50% higher than the cheapest — that's a difference of €47,500 on a mortgage of €250,000, assuming the gap persists for a 25-year term. There's big money to be won and lost. AIB and Bank of Ireland tend to have the best rates, because they've been recapitalised by the government, although they tend to cherry-pick the best customers."

The worst: Ulster Bank and First Active dropped their SVRs from 6.1% in October to 3.85% — a reduction of 2.25 percentage points, even though the ECB rate has fallen by three percentage points. They are not sharing any of last week's reduction with borrowers on their SVRs. KBC Homeloans is considering its options. It charges 3.49%, limiting its reduction to 2.5 points since October. National Irish Bank said it would share last week's cut in full, although its new SVR of 3.4% is only 2.5 points lower than the 5.9% it charged in October.

The best: Other mortgage providers have handed on all of the rate cuts made since October in full. Halifax's SVR will be 2.4% from May, while AIB's rate will drop to 2.5%. New customers will get these rates, though, only if they have at least 50% equity in their homes.

Savings

Money experts advise you to build up an emergency fund of three to six months' earnings in case you lose your job or have to accept a wage cut. All banks have instant access accounts if you need to get at your money in a hurry. Those paying the best rates, though, tend to limit withdrawals or the amount of money that qualifies for the top rates of interest.

Anglo Irish Bank pays the highest rate for no-notice savings — 4.75% on its Premium Demand account. If the balance exceeds €100,000, the rate paid on all money in the account drops to 4%.

Gary Hanrahan, of the price comparison website IrishDeposits.ie, said: "It's important to keep an eye on accounts such as this because, even if you go in over €100,000, the rate will fall. Savers can be caught out when the bank adds interest to their accounts once a year because



Clifford, a mechanic from Dundrum, switched his current account to Permanent TSB to take advantage of free banking and 2% interest. He had been with AIB for 16 years

this can push the balance over the €100,000 limit."

The worst: Ulster Bank and First Active use bonuses to increase their headline rates, although the bonuses disappear if you make more than four withdrawals a year or after six months. Nationwide (UK) Ireland allows six withdrawals before imposing interest penalties on its Easy Access Savings. Halifax cuts interest from 3.5% to 1.6% on balances of more than €10,000 in its Flexi Saver account.

The best: There are no restrictions or penalties with Northern Rock, which pays 3.25% interest on balances over €1,000 in its Demand Online account. Rabo Direct pays 2.5% on all balances over €1.

Current accounts

Banks have lured customers with offers of free banking and current accounts that pay interest. As the recession deepened, though, interest rates collapsed, while many customers are finding that free banking is only for the few.

Peter Kinahan, the editor of MyCash.ie, a price comparison website, said: "The interest paid by banks on your current account won't make you rich. The most you can earn is €111 a year after deposit interest retention tax because they only pay interest on part of the balance. It's better to have this money in your pocket, though, than in the bank's."

Darren Clifford, 32, a motor mechanic from Dundrum in Dublin, has switched to Permanent TSB because it promises no charges for life and pays 2% interest on current account balances.

"I'd been a customer of AIB for 16 years but it would only give me free banking if I paid online or by phone — I didn't want those restrictions," he said. "It's about two months since I switched to Permanent TSB and already I can see the difference in my bank balance."

The worst: AIB and Bank of Ireland impose strict conditions to qualify for free banking, although they pay interest on balances up to €1,500. Ulster Bank does not charge fees, but it does not pay interest either.

The best: Halifax gives free banking and pays 7% interest on balances up to €2,000. Permanent TSB gives an interest-free overdraft for the first three months, as well as free banking and interest on credit balances.

Unused card still proves costly

Margaret Sherwin never uses her credit card, and objects to paying the government €30 a year for having one. Unfortunately she cannot cancel it until the balance arising from the stamp duty is paid

GOVERNMENT stamp duty has led to Margaret Sherwin from Dublin running up a worrying credit card debt, even though she has not used the card for more than three years.

Now she finds herself trapped. Her bank refuses to cancel the card until she pays the €60 balance — all of it arising from stamp duty and growing by €30 a year. Sherwin does not believe, though, that she should be forced to pay for something she never uses.

"This is an unjust charge by the government on a dormant credit card," she said. "I feel I'm being bullied into paying something I shouldn't owe."

Sherwin's troubles began on St Patrick's day in 2006, when banks made chip and PIN security mandatory for all credit card purchases. She was uncomfortable with the move, and stopped using her card.

"It was hard to get used to using cash again for everything because I used to rely on the card for everyday items such as petrol and groceries," she said. "At first, I tended to take

out too much cash from the bank and, once it's in your purse, it disappears quickly."

Sherwin left the credit card account open, however, as a precaution. "I wanted to keep a card for emergencies and I didn't want to give up my credit limit of €2,550 in case I wouldn't get it back if I needed it in future," she said. "Now I can't close the account unless I pay the stamp duty."

She paid the tax in 2006 and 2007, but dug in her heels when the stamp duty was charged again in April last year. The bank reacted quickly to her failure to make a minimum payment, slashing the credit limit from €2,550 to just €500.

It also passed her case to a debt collection agency, telling Sherwin that, if she had a problem with paying stamp duty, she should contact the Revenue Commissioners.

Sherwin plans to continue her crusade against the tax.

Niall Brady

Pick a card

	Balance transfers rate	for	New purchases rate	for
Best credit card introductory deals ...				
Bank of Ireland 2-in-1	0.0%	6 months	0.0%	6 months
Halifax	0.0%	6 months	0.0%	6 months
National Irish Bank	0.0%	5 months	0.0%	5 months
AIB Platinum	3.9%	12 months	3.9%	12 months

... and the worst

Debenhams MasterCard	2.9%	6 months	17.9%	immediately
MBNA Standard	1.9%	6 months	16.9%	immediately
Postbank	1.9%	5 months	14.9%	immediately
Tesco	0.0%	6 months	14.9%	immediately

Source: ItsYourMoney.ie

A budget favouring tax hikes over cuts will drive us to despair

JILL KERBY COMMENT



There will be no middle ground to flee to after Tuesday's emergency budget: either the government will get it right and the economy will be put on the road to recovery or, to quote the outgoing Czech prime minister, we will be on "the road to hell".

Mirek Topolánek was referring to the Americans' multi-trillion borrow-and-spend stimulus strategy, but his warning is just as apt in the Irish context. Our government has given

plenty of notice that it will borrow, tax, and cut its way to put us on the road to recovery and this week we will finally know to what degree.

This is expected to be the first step in a five-year process, but how long are we to wait before we can see that we are on the right road — or if the bitumen is burning up beneath our feet?

I'm worried about the way the government's action plan has prioritised borrowing and taxing ahead of cutting. Anybody who has been reduced to a

three-day week or handed their P45 knows that when your income is reduced catastrophically, you cut out all the spending you cannot afford.

Within the government, that means the excessive number of legislators and their overly generous salaries, expenses and pensions have to go. The number of additional public servants and quangos employed during the property boom, and fuelled by the huge tax take that came with it, also need to be reduced.

Before income taxes are hiked, sucking more money out of the economy, the government should consider selling off the ESB, Bord Gais, Bord na Mona, Coillte Teoranta and the VHI. Perhaps it can be done this time without the mess created during the Telecom Eireann and Aer Lingus privatisations.

And does a country of 4.4m people, with no known enemies but a mostly friendly nuclear neighbour, really need a highly trained national police force with 30 years of anti-terrorism experience and a €1 billion a year standing army? I don't think so.

Meanwhile, only those parents who cannot afford to feed, clothe, house and properly educate their children using their own financial resources should

receive child benefit payments from the state.

All the hundreds of millions of euros paid out in property tax relief should be abolished too, if only to hasten the fall in our artificially high house prices. Only when the cost of property reverts to the mean in this country — no more than three or four times the buyers' income — will the crucial housing market start to recover.

Private health insurance subsidies should also go, but only in conjunction with the introduction of universal health insurance for all, and a government commitment to get out of the health insurance delivery business and to accept the role of supervisor and regulator only.

This would save the country billions, but it would also force us to accept more personal responsibility for our health and the level of personal financial sacrifices we are prepared to make for a first-world health service.

Should the mini-budget cut the €3 billion tax incentives that private-sector pension fund holders currently receive? No. Not because the amount is fair — it isn't — but because this should happen only in the context of a complete overhaul of the pension

system, the one that applies to the public sector, the private sector and old-age pensioners.

This is currently under way, but it's moving at a snail's pace. It needs to be speeded up, not undermined, by the budget.

The easy route for this panic-stricken government will be to increase and extend income levies and other taxes, rather than drastically cut spending and begin the even more necessary action of widespread tax and government reform.

No economy hit by deflation and an earnings downturn can get out of its problems by imposing higher taxation on an increasingly reduced pool of workers. So I'm going to make one more suggestion: aside from cutting our fiscal spending to the bone, the minister for finance should actually cut income and employment taxes and see where that leads us.

I'm convinced, like the Austrian School economists who recommended these measures at the height of the Great Depression, that it won't take us down the road to hell.

It's just a pity Lenihan and the cabinet haven't a clue who the Austrian economists are.

Hail the free market

Late last Monday, because of the taxi strike, I ended up driving to the TV3 studio for an appearance on the Vincent Browne show.

Since I always have a radio on, the first thing I heard after turning on the ignition was a cheerful and highly ironic ad for a Dublin taxi company offering a 20% discount.

"Why pay over the odds?" was the gist. Why indeed, with such a multitude of taxis on the streets of the capital (when they are aren't striking, that is).

I have a lot of sympathy for full-time taxi drivers whose incomes are shrinking due to the recession and the rising numbers of part-time drivers being given plates by the regulator.

But their protest is misguided: it is the regulator, not the public, who deserves their abuse. It is her — and not the public — who has artificially skewed their industry by determining not just how many drivers there will be, but also how much they must charge.

Take away that meter rate and the market would solve the problem of too many drivers chasing a diminishing amount of business. The excess drivers and plates will disappear.