

MONEY



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It pays to bank with the Irish

FERGAL PHILLIPS

State bailouts are forcing national institutions to play fair with savers and borrowers, writes Niall Brady

CUSTOMERS of foreign-owned banks — savers and borrowers alike — have lost out since the European Central Bank (ECB) embarked on an interest-rate cutting spree last year.

Ulster Bank, First Active, National Irish Bank (NIB) and KBC Home-loans have refused to play fair, claiming they are protecting savers by depriving borrowers of the interest reductions.

Irish-owned banks and building societies, though, pay better rates for savers, while also giving borrowers a break by dropping standard variable mortgage rates by the full three percentage point reduction in the ECB key rate since October. Halifax Bank of Scotland has passed on the three point reduction, too — the only foreign bank to do so.

The mortgage cuts are worth €433 a month if you borrowed €300,000 from AIB, Bank of Ireland, Permanent TSB, EBS or Irish Nationwide.

The result is that AIB mortgage borrowers pay €205 a month less than those of Ulster Bank on a €300,000 mortgage paid over 20 years.

Anglo Irish Bank, meanwhile, pays a market-leading rate of 4.25% for demand deposits — the same return you would have earned on your savings last year, when ECB rates were much higher.

Irish banks are under pressure to treat customers fairly because of the government's massive bail-out to keep them afloat. They are also desperate for customers' deposits because other sources of finance have dried up. The International Monetary Fund said last week that propping up the banks could cost taxpayers €24 billion — the most expensive bank rescue in the world.

Peter Bastable, the managing director of Simply Mortgages, a broker, said: "I'd much rather be a customer of an Irish bank or building society because they've got the government breathing down their necks. It's anybody's guess what foreign banks' long-term plans are for Ireland. They seem to be pulling down the shutters on new lending."

Ulster Bank and First Active are the worst offenders. They have reduced their standard variable mortgage rates from 6.1% in October to 3.85% — a fall of 2.25 percentage points, even though the ECB rate has dropped by three percentage points. The banks said: "The decision not to reduce the standard variable rate was taken in consideration of the needs of savers as well as borrowers."

KBC has dropped its variable rate from 5.99% in October to 3.49%, a reduction of only 2.5 percentage points. NIB has also limited its cuts to 2.5 points, and is currently charging 3.4%.

All Irish banks and building societies, meanwhile, have standard variable rates of less than 3% — ranging from 2.5% at AIB to 2.99% at Irish Nationwide — because they shared all the benefits of ECB rate cuts with borrowers.

The danger for borrowers is that they will be forgotten as foreign-owned banks struggle with much

bigger problems overseas. Dan McLaughlin, the chief economist at Bank of Ireland, said: "A by-product of the financial crisis is that banks are concentrating on their home franchises. Many high street banks in the UK are wholly or partly owned by the British government — constraining their ability to grow elsewhere. Foreign-owned banks are operating at levels in Ireland that suggest they are not scrambling for business."

Customers of the locally owned banks cannot be complacent, though, because each interest rate reduction increases the risk that these institutions will short-change savers, borrowers or both. Permanent TSB, for example, has warned that its standard variable rate might not continue to drop in line with future ECB reductions.

Economists expect another quarter-point move by the ECB in May, bringing its key rate to 1%. Some predict another rate cut before the end of the summer, although others believe next month's reduction will be the last.

"My view is that interest rates will hit the floor at 1% next month — the question is how long they will remain there," said McLaughlin. "Even if the global economy starts to recover in the second half of 2009, it will be a muted recovery, so I expect interest rates to stay at 1% for some time."

We look at what savers and borrowers should do now.

Fix your mortgage rate now

Homeowners who fixed last year are bitterly regretting their decision because they have been unable to benefit from falling interest rates. Those who try to break out of the fixed deals early face hefty penalties — €12,000 in the case of one Sunday Times reader trapped in an expensive three-year fix (*A Question of Money*, p14).

Brokers advise that now is a much better time to fix because rates are at or close to the bottom of the cycle, reducing the risk that borrowers could end up paying over the odds.

PICK OF THE MORTGAGE DEALS

Variable rates

Loan-to-value	Lender	Rate
50%	Halifax	2.40%
75%	Halifax	2.50%
80%	Bank of Ireland	2.65%
90%	Halifax	2.70%
92%	Bank of Ireland	2.85%

Fixed rates

Term	Lender	Rate
First-time buyers	Bank of Ireland	2.35%
1 year	KBC	2.49%
2 years	AIB	2.80%
3 years	AIB	3.10%
5 years	AIB	3.69%
10 years	AIB	4.41%

Source: Sunday Times



Key to success: Leahy benefits from having tracker mortgages on his buy-to-let properties, but many investors are on higher rates despite the European Central Bank's cuts

Lenders have started to pull their best deals, though. AIB has raised its five-year fix from 3.6% to 3.69%, and its 10-year fix from 4.25% to 4.41%, but these remain the best on the market (*see chart*).

Karl Deeter, the operations manager at Irish Mortgage Brokers, said: "Several lenders have told us

that they won't pass on future ECB reductions to borrowers on standard variable rates. If the goodness is gone from their hearts, you've nothing to lose by fixing now."

Deeter fears that the world could be facing several years of high inflation, and therefore high interest rates, because of all the money being spent by America and other countries to bail out the banks and revive their economies. If he is right, fixing at today's low rates would be a wise move.

"It costs €69 extra a month — about €16 a week — to fix a 30-year, €250,000 mortgage for five years compared with remaining on a variable rate," he said. "It's a small price to pay for being protected from the risk of higher inflation until 2014."

Fix your savings for as long as you can
Savers are being urged to capitalise on the banks' hunger for their money by locking in to the record deposit rates on offer for as long as possible.

Noel Griffin, the head of group deposits at Bank of Scotland (Ireland), said: "Take the best deal you can find and fix for as long as you can because these rates can't continue. By paying 3%-4%, when they should be offering less than 1%, nationalised banks are admitting that their credit ratings are so poor they can't get money from anywhere else. Ignore 30- or 90-day

deposits — lock in your savings for as long as you can, even if banks are offering better rates for shorter terms."

Irish Nationwide pays 5.5% over 15 months for deposits over €20,000, equivalent to an annual rate of 4.38%. Anglo Irish Bank pays 7.12% fixed for two years, equivalent to 3.5% a year.

Play the money markets

The financial crisis has created an anomaly, with banks paying more on deposit than they charge on mortgages. This means that credit-worthy homeowners could pocket €2,880 over two years by borrowing €200,000 at AIB's two-year fix of 2.8% and depositing the money with Anglo Irish Bank, earning 7.12% over the two years.

Deeter said: "Deposit and mortgage rates have flipped, so that you can make money simply by moving it around."

It is not a guaranteed money maker, though, especially for those who fail to do their homework. Derek Keogh, the head of retail sales at Anglo Irish Bank, said: "People are asking why they should pay off their mortgages when their money could earn more on deposit. It's a tricky game, though, and you could get caught out because deposit rates are moving very quickly. Today's rates won't be around for much longer — banks are already pulling back what's on offer."

Landlords left high and dry

Buy-to-let investors have seen only a fraction of the rate cuts enjoyed by homeowners

BANKS forgot buy-to-let investors as interest rates fell, sharing the reductions with owner-occupiers but passing few of the benefits to landlords. John Leahy, 36, from Lucan, Co Dublin, finances his buy-to-let properties with tracker mortgages, though, ensuring his interest bill has fallen in line with reductions in the European Central Bank's (ECB) key rate.

Leahy, the founder of Irishlandlord.com, a free information website for property investors, said: "Some banks claim to be passing on the rate cuts in full, but not to all investors. Those with mortgages classified as commercial loans have done worst of all; some have seen little reduction. It all depends on the small print."

Allied Irish Banks, for example, has reduced its buy-to-let variable rate from 5.7% to 4.2% — just half of the reduction of three percentage points the ECB rate has fallen since October. Bank of Ireland reduced its buy-to-let rate from 6.29% to 4.665% — a cut of only 1.625%.

Even when they are lucky enough to have tracker mortgages tied to the

ECB rate, investors can still find themselves out of pocket. "Some tracker margins depend on the size of the loan relative to the value of the property," said Leahy.

"As property prices continue to fall, some banks are looking for revaluations of investment properties. If loan-to-value ratios have dropped, you may not qualify for the same tracker deal any more."

Investors have also been squeezed by the recent emergency budget, which slapped a restriction of 75% on the amount of mortgage interest that qualifies for tax relief, potentially bringing many loss-making properties into the tax net. "This may result in some landlords generating paper profits [in the eyes of the tax man] on properties that are losing money," said Leahy.

He believes the government has stacked the odds unfairly against property investors. "The changes to taxation of investment properties penalise those who chose property instead of the stock market for their pensions," he said. "Property taxes, which the government may introduce next year, will be the last straw for many investors."

Niall Brady

Charging management fees on failing funds takes the biscuit

JILL
KERBY
COMMENT



Bank of Ireland last week launched two new capital guaranteed tracker bonds — those tired, opaque, derivative investments that promise to return your money after, typically, four to six years. The catch is that they put a ceiling on any growth the tracked indices of stocks may earn and pay no dividends. I've never thought there was an optimum time to buy a tracker bond: they are no more than glorified deposits, with

a tiny portion of your stake exposed to specific stock price movements. Whether the market is rising or falling, it is more cost-effective to put the bulk of your funds in the highest yielding savings account you can find and punt the rest on your favourite shares or low-cost exchange-traded funds; over six years, the yield on the savings should secure the capital tracking the shares. With the markets so volatile, charges are still a big part of the risk you take

investing in pooled funds of any kind. Some life assurance companies and specialist fund managers spread their initial charges and commissions over a number of years, but too many still pocket up to 5% of every contribution as well as ongoing management fees.

The problem with trackers is the charges are bundled into the derivative pricing and it's impossible to compare them with the more conventional plans, or to the much more transparent (and non-commission) direct, online providers such as Quinn Life and Rabo Direct.

Quinn has no upfront charges and its annual fund costs are mainly in the 1% to 1.5% range; Rabo Direct has just waived its usual 0.75% entry fee for the rest of this year, which is very welcome. Its fund prices range from 1% for some bond funds up to 1.75% for more specialist funds.

Conventional life assurance providers and other fund managers are still not only charging high initial fees, but also annual management fees as high as 1.75%-2%, no matter whether your investment's value goes up or down. Bank of Ireland Life gently scolds what it calls the "biscuit tin mentality" that is prevailing among those ordinary retail

customers who once saved their special savings incentive account money with the bank, or invested to cover their children's third-level education.

The biscuit tin seems a perfectly sensible option to me when, a year into the downturn, not only do the fund managers keep losing clients' money, but also seem to think it's perfectly acceptable to pocket 5% of every monthly contribution and, annually, another 1.5% or 2% of the entire loss-making fund.

If the fund managers took their hands out of the cookie jar, then people might take their money out the biscuit tin. Here's a novel marketing idea: why not announce that from May 1 all management fees will track the fund's performance?

Housing crash's built-in bonus

We may all be mourning the collapse in the value of our property — it is after all, the way we measure our wealth in Ireland. But there's no profit in reminiscing about what your house was once worth if it means you're going to overpay for your building insurance.

The Society of Chartered Surveyors

latest guide shows that rebuilding costs are down 4%-5% and that insurance companies should be adjusting our premiums on a pro-rata basis.

The rebuilding cost of a typical three-bedroom semi-detached house in the Dublin area is down about €9 per square foot to €292,500. Rebuilding a 2,000-sq-ft four-bedroom property has fallen from €386,000 to €368,000 says the society, and it is in everyone's interests to contact their insurer and adjust their policies, especially since the cost of home insurance has risen sharply in the past year — by 25% in some cases, according to the latest CSO figures.

The substantially lower rebuilding costs relative to property market prices was always a sign of irrational house prices and labour costs. The boom also fuelled a great deal of inertia about how much we paid for insurance, a luxury many can't afford any more.

Non-life insurance premiums are on their way up — not just because of higher claims, but because the insurers are taking a hit on their investment income and from falling sales. You can check out the different rebuilding examples in the latest surveyors guide at scs.ie.

Tips on ditching your debt

The higher income and health levies announced in the emergency budget will be tipping many people over that line between just about coping with their monthly bills and defaulting on them.

Such people may want to check out the financial regulator's new recession survival guide (seeyourmoney.ie) which deals with money management, redundancy and debt, and suggests some ways to make savings of up to €3,000. But if you've hit a debt wall, and need more than helpful budget tips to stop your house from being foreclosed, you should get a copy of Eddie Hobbs' Debt Busters: Managing Your Money Through the Recession (Currach, €12.99).

Hobbs comes up with 192 pages of debt recovery and consolidation plans for a wide spectrum of experiences. He also reassures the desperate householder that they're more likely to keep their house keys if they voluntary present the bank's debt resolution officer (once known as their "loan officer") with a workable repayment solution than the person who does nothing but wait for the date of their mortgage foreclosure hearing.