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Escape from the zombie lenders

The state's bank rescue package won't help thousands trapped by uncompetitive mortgages — but there are ways they can free themselves, writes Niall Brady

THOUSANDS of homeowners trapped in uncompetitive mortgage deals from “zombie” lenders will get no benefit from the bank customers’ rescue package announced by Brian Lenihan, the finance minister, last Wednesday.

The package, part of the €7 billion recapitalisation of Allied Irish Banks and Bank of Ireland, has overlooked other borrowers too, especially those seeking car loans and other forms of non-mortgage finance.

A significant gap has opened up between variable mortgage rates, with Halifax and AIB charging almost 1 percentage point less than First Active, KBC Home-loans and Ulster Bank, the three lenders that have refused to share with borrowers all the reductions in interest rates since last October (see chart).

Ulster Bank, for example, charges €1,528 a month on a €250,000 mortgage paid over 20 years at its standard variable rate. That is €123 more a month than Halifax.

Switching to a better deal is tricky, though, because rising unemployment has made banks wary of new lending, even to those with clean credit histories. Falling house prices have not helped, because switchers will only get the best rates if they have a lot of equity in their homes.

Borrowers looking for car finance or other forms of non-mortgage debt are struggling too. Tesco Personal Finance, which had a competitive fixed rate of 6.9% for unsecured loans up to €30,000, stopped lending last week in a bid to stem rising bad debts. GE Money has halted personal lending too.

Mortgage lenders, meanwhile, are making it harder for borrowers to top up home loans to pay off expensive short-term debts, such as car, home improvement or holiday loans.

Permanent TSB has halted sales of its OnePlan mortgage, which used to provide a flexible way of releasing home equity. Other mortgage lenders will give top-ups only if their borrowers agree to abandon tracker mortgages, where interest is linked for life to the key rate set by the European Central Bank.

Here, we give the answers that borrowers will need if they are to secure a better deal.

Who is the bank customers’ package for?
AIB and Bank of Ireland have promised a 30% increase in mortgage lending to first-time buyers in return for the government’s bailout. They have also agreed to wait 12 months before taking action to repossess the homes of customers in arrears. Other lenders will give a six-month break to borrowers in arrears.

Many are sceptical that the package will work. Liam Ferguson, of Ferguson & Associates, an independent mortgage broker, said: “Any easing of credit is welcome but this won’t kick-start the property market

on its own. First-time buyers are staying out of the market because of uncertainty about their jobs. Even when their jobs are secure, they won’t be rushing out to buy while prices continue to fall.”

What’s on offer for first-time buyers?

AIB is sweetening its offer from tomorrow, with a one-year fixed rate of 2.49% available until the end of next month. Bank of Ireland charges 2.95% fixed for one year.

Ulster Bank offers protection against negative equity, arranging with property developers to refund up to 15% of the prices paid for new homes if they are worth less after five years.

Borrowers can get 95% mortgages for up to 40 years, with a special variable rate of interest of 3.7% or a five-year fixed rate of 4.2%. The catch is that Ulster Bank’s Secure Step mortgage is limited to those buying in specified housing estates, and excludes one-bedroom and studio apartments.

What about other homeowners?

Halifax and AIB have the best standard variable rates but they are no longer available to new customers.

Until last Friday, AIB charged 3.25% interest to everyone on a variable mortgage, with a maximum 92% loan. From tomorrow, however, new borrowers will get the 3.25% deal only if they have at least 50% equity in their homes. If they do not, they will pay 3.45%, provided they have at least 20% equity, or 3.65% if they want to borrow more.

Halifax is a better bet, charging 3.15% for those with more than 50% equity, 3.25% for borrowers with at least 25% equity, and 3.45% for other borrowers.

How do banks measure home equity?

Falling house prices have reduced home equity for everyone, making it harder to qualify for the banks’ best deals.

Those trapped in negative equity are stuck with their existing mortgages because they cannot afford to switch. Even those with low mortgages are running into problems in determining how much equity they have.

Sean McCormack, president of the Society of Chartered Surveyors, said: “Valuers usually rely on the prices achieved by similar houses that have sold, but this has been difficult in the past 12 months because there have been so few transactions.

“It’s the banks’ prerogative to discount professional valuations. They might give themselves a buffer, for example, by lending only 85% of a property’s valuation rather than the more usual 92%.”

Which banks are open for business?

The good news is that the lenders still open for business tend to have the best rates too. Trevor Grant, the managing director of



Deeter, of Irish Mortgage Brokers, is preparing to switch to a fixed-rate deal because he fears that a sharp rise in inflation will lead to higher interest rates

MIND THE MORTGAGE GAP

| Lender | SVR ¹ |
|------------------|--------------------|
| Halifax | 3.15% |
| AIB | 3.25% |
| Bank of Scotland | 3.50% |
| Bank of Ireland | 3.54% |
| EBS | 3.63% |
| Haven | 3.65% |
| National Irish | 3.65% ² |
| Permanent TSB | 3.69% |
| ICS | 3.70% |
| Irish Nationwide | 3.74% |
| KBC Homeloans | 3.99% ³ |
| First Active | 4.10% |
| Ulster Bank | 4.10% |

¹ Standard variable rate ² From February 23 ³ From February 16

Source: The Sunday Times

Select Finance Group, an independent broker, said: “AIB, Bank of Ireland, Halifax/Bank of Scotland and EBS/Haven still have an appetite for lending, while Permanent TSB is an option for first-time buyers.

“Their terms are stricter than in the past, however, taking less consideration of add-ons such as bonuses and overtime earnings when assessing mortgage applica-

tions. A lot more documentation is required to get mortgage approval and the process takes longer.”

Is switching expensive?

Banks have scrapped switching incentives, so expect to pay €1,000 to €1,300 in legal fees to transfer to another lender. The outlay can be quickly recouped, however, through the savings in interest.

Borrowers switching a €310,000 mortgage from Permanent TSB to AIB could recoup the legal bill of €1,130 over just two months, according to Ferguson, based on the gap between their two-year fixed rates.

What about personal loans?

Some lenders are exiting the market as bad debts increase while most of the others are charging more for loans, even though interest rates have dropped sharply and are expected to keep falling.

Only two credit card issuers — AIB and Bank of Ireland — currently charge less than 10% interest, following recent hikes by Halifax and Permanent TSB.

Credit unions are borrowers’ best bet as credit dries up, because they have escaped the worst of the banking crisis.

Kevin Johnson, the chief executive of the Credit Union Development Association, said: “Credit unions are not exposed to wholesale financial markets, because all loans are funded from members’ savings.

“We’re not concerned with chasing market share but we do anticipate that membership will increase as customers of other financial institutions reassess their needs.”

Paying to insure against inflation

Karl Deeter, 33, is looking to the future and abandoning his tracker mortgage for a more expensive fixed-rate deal

FEARS that the current combination of low inflation and falling interest rates will not last long have led Karl Deeter to consider drastic action.

He is preparing to fix the mortgage rate on his home in Donnycarny, Dublin, for the next 10 years. This means switching from a Bank of Scotland tracker mortgage, pegged to the European Central Bank base rate of interest by 0.75% for life.

Deeter is defying conventional wisdom. Trackers are the only type of mortgage that guarantee to pass on future reductions in interest rates to borrowers in full. The financial regulator has warned homeowners to think carefully before abandoning them.

He will not be able to change his mind later because banks no longer offer trackers to new customers. The best 10-year fixed rate — 4.45% from Allied Irish Banks — costs considerably more than the rate of 2.75% Deeter now pays to Bank of Scotland.

As operations manager at Irish Mortgage Brokers, he has a bird’s eye view of where interest rates could be heading. “I believe that inflation will rise

sharply because of all the stimulus packages that are being launched to save the global economy,” he said. “The only way to keep this inflation in check will be to jack up interest rates.”

Deeter is waiting for fixed rates to fall further before making his move. “I believe that 5% is a healthy average rate of interest for a growing economy, so you’re getting a good deal if you can fix long term for less than that,” he said.

A blind belief that trackers are always best could lead to costly mistakes, he says. “The financial regulator is there to ensure that people make prudent decisions — not necessarily the right decisions,” he said. “Two years of 8% inflation would take a lot of the gloss from trackers because, just as borrowers benefit from all decreases in interest rates, they also get hit with all of the increases.”

Even though fixing will increase his monthly repayments, Deeter believes it is worth paying extra. “The risk that inflation will eventually drive up interest rates outweighs the benefits of keeping a cheap tracker for the next few months,” he said. “I consider the extra payment to be an insurance policy against inflation.”

Niall Brady

Freeze on repossessions will take the heat off homeowners

JILL KERBY
COMMENT



Will a mandatory moratorium on repossessions for a year be enough to save homeowners who have fallen into arrears from losing their homes? Probably not. This depression is showing every sign of lasting longer than a year.

The world is pinning its hopes on the \$2.5 trillion (£1.9 trillion) the American Treasury is going to use to further capital-

ise the country’s troubled banks and other industries, and on the \$789 billion President Barack Obama intends to spend “to save or create 4m jobs”.

These ambitious measures, however, will not be enough either. That is because the money has to be borrowed or created out of thin air.

It’s money that will only add to the staggering amount of debt already in the

system, debt that has caused banks (and a few countries) all over the world to implode, property bubbles to explode, and millions of people to lose their jobs, businesses and homes.

The mainstream media are also finally beginning to realise that all these plans to save Ireland and the world have been cobbled together on the back of envelopes by panic-stricken politicians and regulators who clearly have no idea that the depression will only end, and a recovery happen, when the existing debt is paid off or written off, not postponed.

You must now do what you have to do to protect your family and wider community from the “catastrophe” that President Obama has predicted will happen, not if, but when the first depression of the 21st century really takes hold.

If you have lost your job, claim every benefit to which you are entitled (follow the social welfare and employment links at www.citizensinformation.ie).

Then, once the new moratorium on repossessions is signed and sealed, tell your mortgage lender, if you have one, that you can pay only a token monthly

payment. You can’t be evicted until 12 months of arrears have passed. You will need every penny of your unemployment benefit to feed your family, to pay your heat and electricity bills and to find new work.

As for those who are still employed (and the vast majority of us still are, thank goodness) but who don’t already have a hefty cash emergency fund in place and are struggling with a large mortgage, creche fees, car and credit card loans, we should also speak to our lenders.

Tell them you want to extend the term of your loan to 35 or 40 years, and/or switch it to an interest-only payment schedule. Many loan contracts already make provision for this kind of flexibility. The monthly savings should then go into an emergency savings fund that you can use if your income is reduced or lost.

This isn’t a suggestion the banks or government will welcome. But the law of unintended consequences means this moratorium will be abused by the feckless who will use it to avoid paying their mortgages. You want to secure some flexibility for your family budget before the code is

tightened or, more likely, abolished because it has become unworkable.

Flat owners pick up neighbours’ bills

A downside of apartment or gated-estate ownership in this country has been the poor service delivered by many of the management companies set up by the developers to carry out repairs, cut the grass, change the light bulbs and service the boilers. For many unsuspecting owners, the charges have been disproportionate to the sometimes non-existent service.

The National Consumer Agency (NCA) took up the “multi-unit” owners’ cause by developing a code of practice for the Irish Home Builders Association and the property owners (visit www.consumerproperty.ie/downloads/downloads.html for copies of the various codes).

This has been a great help to condo owners, but some are discovering a new problem: what do you do when fellow owners lose their jobs, move away or hand their flat keys back to the banks because they see no point in continuing to pay off a loan worth a lot more than the property?

The NCA website notes: “Once you sign

up to a management company agreement, remember that it is legally binding. It sets out your rights in terms of what the company will do for you, but it also places an obligation on you to pay for the services it provides.”

One of those obligations may be a contractual duty that requires the remaining owners to pick up the costs that are no longer being met by a fellow owner.

Defaulting owners may have to be pursued through the courts. A friend who owns an apartment in a smart building in the Dublin suburb of Rathmines told me she has already received a notice from her management company to say that her annual fee will have to rise in the next quarter for this very reason or services will be reduced.

“Take it or leave it, we were told,” she said. “I don’t fancy cutting the grass or putting out the rubbish every week, so I guess I’ll have to pay up.”

You might want to take a closer look at the small print in your contract — especially if you see the owner of apartment 2C down the hall moving out before a For Sale sign even goes up.