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Declan Clune from Kilkenny saved €5,000 when he bought his car in Co Antrim

Saving beats loan repaying

More can be earned on deposit than in mortgage top-ups, says **Niall Brady**

BORROWERS on ultra-low tracker mortgages are being urged to stop overpaying and instead take advantage of the top savings deals.

They could earn much more on deposit than they would save by repaying their low-rate mortgages ahead of schedule, as cash-strapped banks offer attractive rates to lure savers.

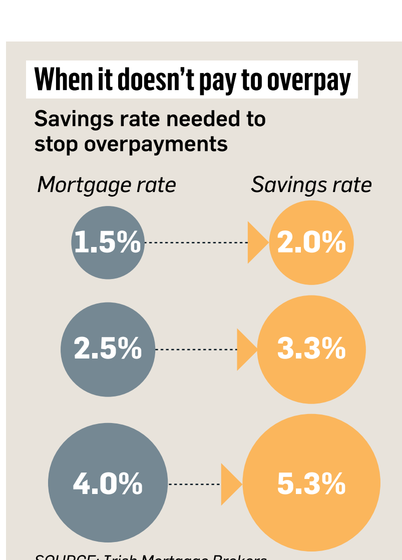
Mortgage overpaying can also be a costly mistake if borrowers need to get back the money in future because lenders are wary of mortgage top-ups while house prices are dropping and unemployment is rising.

Brendan Burgess of Askaboutmoney.com, a consumer finance website, said: "Tracker mortgages have been a mistake for the banks because they've turned into loss-makers. It's in the banks' interests that they be paid off early. It doesn't make sense for borrowers, though, as long as they can earn more on deposit or even by investing their money."

Tracker deals have tumbled with the European Central Bank (ECB) rate, which has fallen from 4.25% last July to a historic low of 1%. The Economic and Social Research Institute (ESRI) said last week it expected the interest rate to stay at this level until at least the middle of next year.

National Irish Bank gave lifetime trackers up until last year, tracking at 0.5 percentage points over the ECB rate for borrowers with at least 50% equity in their homes. Allied Irish Banks had a tracker at 0.6 points over ECB, while Bank of Ireland charged 0.75 points over ECB for life.

Monthly payments on a €200,000 deal from NIB would have fallen from €1,292 last year to €965 — a reduction of €327 that borrowers can use to overpay their mortgages. However, with savings rates at 5%, they would be better off leaving the money on deposit.



If NIB borrowers continued paying €1,292 a month for the next 12 months, they would have overpaid by €3,924, assuming the ESRI is correct and interest rates remain on hold. However, this would save only €32 in mortgage interest.

They would be better off placing the extra €327 per month (the amount left after paying €965 for the mortgage) into a regular savings account — such as Anglo Irish Bank's 5% deal — for 12 months. This would be worth €4,003 after deposit interest retention tax (Dirt) of 25% at the end of the year. This includes €79 in interest — €47 more than overpaying the mortgage.

Karl Deeter, the operations manager at Irish Mortgage Brokers, said: "I'd normally advise borrowers to pay off their mortgages as quickly as they can. It's not worth their while, though, as long as they can earn more interest on deposit."

However, banks are encouraging overpayments as the quickest way of getting loss-making tracker mortgages off their books. "For some banks, mortgage repayments are their only source of funding at the moment because they can't get money elsewhere," said Deeter. "I wouldn't be surprised if they started to offer incentives to encourage early repayments."

The savings option makes sense only if you can earn more on deposit after paying Dirt, which has increased from 20% to 25% over the past year. If you cannot find a savings account that pays more than the interest on your mortgage, you would be better off overpaying.

How the system could work to your advantage

Mortgage overpayments can result in big savings — but only if borrowers do their homework. We explain how to work the numbers.

How much could I save?
Monthly payments on a €250,000 mortgage at Bank of Ireland's standard variable rate would have fallen from €1,761 last year to €1,330 currently.

If borrowers decided to overpay by keeping the payments at €1,761, they could save €21,438 in interest and shave five years and 10 months off the 20-year mortgage term.

Is overpayment right for me?
It makes sense for those people whose mortgage rates are higher than the amount they could earn on deposit, after paying Dirt.

The best regular savings accounts pay 5%, or 3.75% after Dirt. This is less than standard variable mortgage rates at Ulster Bank and First Active, so their customers are better off overpaying. Customers of cheaper lenders, including Allied Irish Banks, Bank of Ireland, Permanent TSB and EBS, should avoid overpaying and save in high-interest accounts instead.

Can I get back my overpayments?
The property crash has reduced the amount of equity in borrowers' homes, making it harder for them to top up their mortgages if they need to get back overpayments in the future. Lenders such as KBC Homeloans, however, allow borrowers to withdraw overpayments at any time. It reduced the rate on its SuperSaver mortgage from 2.59% to 2.45% last week. To qualify, first-time buyers need at least a 20% deposit, while those remortgaging cannot borrow more than 60% of the value of their homes.

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