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Painful... Permanent TSB rose by one per cent recently

Q&A

Can I change my provider?

Q I HAVE a mortgage with Ulster Bank who've said they're hiking their rate by 0.5 per cent. I'm already finding it hard to make the payment every month. I want to switch provider but I'm in negative equity. What can I do?

A CULLEN, Sligo

A FOR a start, you can't switch. You'd need to have equity in the property for that, and even if you had, some banks

who offer great prices don't allow you to switch to them (like AIB).

If you can't find a way to make ends meet, call your lender and ask to be dealt with as a pre-arrears case.

This is a new classification of borrower under the 2010 Code Of Conduct On Mortgage Arrears, and the bank's team in that department can help you work out a payment plan that works.

Banks alone control prices they charge

YOU may have wondered recently why someone doesn't do something about the banks jacking up their prices.

Well, the only ones who control the prices set by banks are... the banks.

In a normal market, the solution is competition. In Ireland we've plenty of banks, but not enough with adequate funds to create that competition.

Permanent TSB, who moved up one per cent recently, will only gain about €53million from a move that will mainly serve to hurt customers.

However, this shows that of the €38BILLION in loans they have, only about €1 in every €75 is affected.

In total loan amount terms, about

€530m is on a variable rate. The problem is how they manage the other €37.5bn.

That's why banks will start to fire staff this year. PTSB wasn't given taxpayer money, and part of me has to respect the fact they've been first off the blocks every time with the hard decisions.

It shows resolve and a sense of reality — something that's totally absent from other State-backed institutions.

PTSB only ever got the State Guarantee — and they've paid the insurance premium for it.

The real question is, when will AIB and BOI start to follow suit? They have the luxury of being able to live in denial for now, but that won't last for ever.

2011: Year of the buyer



Looking up... there's plenty of reason for optimism

ACT BEFORE RELIEF IS SLASHED

TAX Relief at Source is a valuable tax benefit, and this is the last year you can avail of it in full.

Come 2012, the scheme will be slashed — which could make a big, unwelcome difference to your pocket.

For each mortgage applicant, TRS is currently calculated on 25pc of the first €10,000 in interest you pay for the first two years of your loan.

So, for example, a first-time buying couple get a mortgage of €300,000 on a five-year fixed rate of 5pc.

The 'interest' portion of this loan is €15,000 a year, which doesn't surpass the €20,000 level (of €10,000 per person x 2), so take that figure and apply 25pc of it. €15,000 x 25pc = €3,750.

Divide that by 12 (to get your monthly figure) and you get €312.50.

So every month this couple will get a rebate of €312.50 for the first two years. While their actual mortgage repayment is €1,753 a month, the amount that comes out of their account will be €1,440.50.

TRS goes down in later years, though — to 22.5pc in years three and four, and then 20pc for years five and six, but the mortgage equivalent this represents in the case above is about €55,000 in borrowing over 25 years!

So, should you buy now and

HOW THE CHANGES WILL AFFECT FIRST-TIME BUYERS		
First-time buyer couple	In 2011, buying for €250k being a 90% loan	In 2012 buying for €225k (-10% from 2011) being a 90% loan
5yr fixed rate	4.6% (NIB)	5.6% (likely future rate)
Monthly	€1,403	€1,395
TRS per month	-€240	-€75*
What they pay	€1,163	€1,320
<small>*because TRS drops from 2012 by around 70%</small>		
Effect of a rate hike	0.5% rate hike	1% rate hike
For every €100k over 25yrs	€26 per month	€54 per month

perhaps 'overpay' to get the benefit? Due to changes in the Finance Bill, if you wait until next year to buy, you'll only get 15pc on €3,000 in interest.

That means the maximum a couple could obtain would be €75 per month versus a maximum of €416.67 now.

COSTS

Look at it this way — if you're considering buying a property, you have to factor in the costs, not just the price.

In the example I quoted, if the couple were to wait another year and get a 10pc reduction on the property price, it wouldn't actually make sense because the TRS boost they get this year would cancel out that price drop.

Irish Mortgage Brokers predict variable rates will rise at least 1pc and reach 5pc or more by next year.

Some lenders have already done this, and the likes of EBS are going

that way now. If this pans out, it'll be a double whammy, with tax benefits dropping AND interest rate costs rising.

Property prices may well continue to fall, but a recent survey in The Sunday Times predicted they'll hit the bottom this year.

So what should you do?

With rents stabilising, now could be a good time to negotiate a long-term lease. If you don't have job security, buying a house is a lousy idea anyway.

However, for those who do have the choice, the buyer still has the advantage. While obtaining finance is hard, 2011 should see about 35,000 mortgage draw-downs in Ireland.

The most important thing to do, though, is fix your rate! A five-year fixed rate looks best. With AIB's rates starting at 4.39pc, this'll protect from the variable rate hikes lenders have planned for you. *kd@advisors.ie*