You can bet your house on big savings

Switching mortgage providers is one of the least acted upon but most lucrative ways to cut your costs, writes **Sinead Ryan**

There is probably no other product switch that offers the gargantuan savings of a mortgage and yet, hardly anybody does it. Yes, it's a hassle, lots of paperwork and a wait, but the rewards can be immense.

Savings are both immediate and long term and there is such a competitive market out there, rising house prices demand that more people at least investigate whether it's worthwhile for them.

According to the Banking & Payments Federation, re-mortgage/switching figures accounted for 12.1pc of all mortgage draw downs year to date. However, this is down from 13.1pc last year.

"Cumulatively since 2003, 159,592 borrowers have switched from one mortgage lender to another," it says. "While the bulk of these took place during the years before the financial crisis, it illustrates the capacity of the banking system to facilitate switching in response to consumer demand".

Joey Sheahan, head of Credit at MyMortgages.ie adds, "What's slightly concerning about the figures, however, is that although mortgage/switching approvals rose by 17.1pc in volume on the previous month, they actually fell by 1.5pc year on year. Switching still has a way to go in terms of being on the public radar, and so it's something we will continue to shout about until more mortgage holders are aware of the huge savings that can and should be made on their mortgage by regularly reviewing their rate and their lender."

The Basics

Lenders rely on two things when assessing switchers: LTV and LTI. Remember, you're effectively "pre-approved" when you're a switcher – another bank has already granted you a loan, so the next one is usually happy to consider taking it on.

LTV: the loan-to-value of a switcher is key; the lower it is, the better the rate. If you've been stuck on the same mortgage rate for years, then this is your key number. Getting your house re-valued (you'll have to do it anyway for the Local Property Tax update in 2020), will indicate whether it has dropped enough to make a difference.

Divide the outstanding mortgage by the house value and multiply by 100. Anything lower than 80pc puts you firmly in the switcher market.

LTI: Loan-to-income limits are strictly controlled at 3.5 x income. However, banks are allowed a derogation for one-in-five cases to offer them more than this. If you're switching in order to upgrade your mortgage by moving, then you could fit the mould.

Some banks actively want switchers and will even pay for your house to be valued, and offer lower switcher rates if you do.

It's a no-brainer, but such is the suspicion around banks that some people think it's a scam! It isn't – so if your lender offers a revaluation, take it!

To Fix or Not to Fix... that is the Question

Shakespeare misquoted, there are far more fixed rate (FR) mortgages taken out than variable (SVR), despite stable, low rates for the last five years. This is because of the curious position of FRs being lower than SVR in many cases as banks try to hold onto customers. That's the good news; of course, taking a fix means you can't change your mind during the term, so the trick is by all means to fix, but not for long. Three to five years maximum will see the benefits.

Switch Internally

You don't have to move lock, stock and barrel. Some banks can be persuaded to keep you by switching to a lower internal rate.

Frank Conway, of MoneyCoach, says, "It's a way to trick lenders. I did this recently where a client was advised their lender would reduce their fixed loan from 4.4pc to 4.2pc. But when I underwrote the loans and saw the strength of the case; the income was very strong, the credit rating was great and the LTV was about 55pc, I could have got them a 2.8pc deal elsewhere. So, I told their existing lender and they moved, from the 4.2pc they were offering to the mortgage holder to 3pc. So, their mortgage repayment fell by hundreds of euro per month and they saved a fortune."

The trick here is to line up your mortgage ducks: research the market, know what's on offer for your LTV and play one off against another.

Cash-Back and Other Incentives

Many banks now offer incentives to get mortgage switchers, but approach these with caution. Getting 'free' money now may be at the expense of higher repayments over the term and is not a bargain; it also locks you in.

■ The first rule should be that the same rates apply to new and existing customers.

■ A 'first year' discounted rate may be offered, but it may insist on you moving your current account to the bank.

■ Cash-back is offered by Bank of Ireland, EBS and Permanent TSB. If, and only if, they also have the lowest repayment rates, then by all means switchers can benefit.

■ Others offer discounted legal fees (Ulster, KBC) or free current account banking (AIB).

HOW TO SWITCH... MORTGAGES

STEP 1 Get your house valued. Use the Property Price Register, local estate agents or recent sale prices in the area to guesstimate.

STEP 2 Use ccpc.ie or Bonkers.ie to research the market for lenders and rates. Alternatively, use a specialist mortgage broker.

STEP 3 Appoint a solicitor to act on your behalf. Ask your bank if they'll pay towards the legal fees.

STEP 4 Tell your bank, see if they'll match the rate; otherwise, complete the application form and assemble other documentation (bank statements, P60s, valuation, etc).

POTENTIAL SAVINGS:
€238.37 pm and €71,509 over term, switching 4.2pc SVR to 2.4pc Fixed on €250,000 over 25 years (LTV 62.5pc)

TOTAL TIME: 3 months end to end

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