WHY LOYALTY TO YOUR LENDER DOESN'T ALWAYS PAY!

After massive property and finance activity in the last 2 years, 'Australia's big four banks made huge profits as Australians took out bigger mortgages for pricier housing'. In fact, a whopping $1.87 trillion in home loans, and a combined cash profit after tax of $14.4 billion, was reported in the EY 2022 half year results[1].

It's hard to feel sorry for the BIG 4 about their margins reportedly declining due to intense competition from other lenders, but of course these will shoot up now as interest rates rise.

There was a flurry of movement across all lenders in the past few years as mortgage holders chased lowest rates and lenders competed for new business.

With interest rates now rising, this activity has slowed right down.

This is due to a few factors.

1. Fixed loans no longer attractive

At one point last year, over 50% of borrowers were in LOW fixed rates. According to Rate City in June, almost 40% of borrowers were in fixed home loans not set to expire until mid 2023[2].

Twelve months ago, for example, the average BIG 4 three-year fixed rate for owner-occupiers paying principal and interest was 0.68% points **lower** than the lowest average variable rate. Today, it is 2.57% points **higher**[3].

2. Smaller market share

With such an unusually high percentage of mortgage holders locked in to fixed rates, there is a smaller portion of available potential business.

3. Consumer sentiment

When there is uncertainty in the property and finance market, buyers and sellers tend to be more conservative and wait for the property cycle to begin again. This leads to less participants in the market.

This has driven lenders to introduce enticements to attract new business.

So what are the lenders doing to generate new business? And why are we telling you this?

With mortgage brokers now dominating the lending space and delivering up to 66.5% of all new residential home loans[4], some lenders are offering significant cash incentives to attract new customers via the broker channel. Some cash incentives are as high as $4,000 and some include conveyancing rebates and QANTAS frequent flyer points. You would be surprised at what they are offering us to use at our discretion.

THIS PARTICULAR DEAL IS ONLY AVAILABLE THROUGH MORTGAGE BROKERS.

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Of course conditions apply and there is strict eligibility criteria, but the reality is 2 months ago as a home owner you were looking at the potential of having to find (as a national average) an additional $600+ per month with interest rates increasing by up to 2%[5].

With some of the incentives we may be able to offer you, we can potentially help you in advance with the potential huge mortgage repayment increases if you meet these criteria.

Learn how to prepare for your complimentary interest rate review

It is typical for some lenders to reward NEW customers with incentives to switch instead of looking after their existing loyal customers. Please don't feel as though you need to return any loyalty.

However, there are a few lenders wanting to repay your loyalty. As there are so many options available now, we recommend we do the ground-work for you to source those that might be appropriate for your consideration.

In fact, the Australian Competition and Consumer Commission (ACCC) in their final report of the **Home loan price inquiry** highlighted that *'Australians with older home loans were paying significantly higher rates than new borrowers with newer home loans, potentially missing out on thousands of dollars over time'*[6].

With 55% of borrowers not knowing their mortgage interest rate[7], I want to finish this month's conversation with two questions.

1. If your loan is NOT currently fixed, 'Do you know your interest rate?

No? You need to call us for a rate review.
Yes? You need to call us for a rate review.
Not sure? You definitely need to call us for a rate review.

2. Are you coming off your fixed rate in the next few months?

Yes? You need to call for a rate review to plan in advance for your next loan.

With so much finance and property doom and gloom media hype at the moment, let us put a smile on your face by reviewing your current finance products to see how we could help reduce your mortgage repayments.

Sources:

1. *https://www.abc.net.au/news/2022-05-10/big-four-banks-profits-home-loans-mortgage-debt-interest-rates/101051100*
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3. *Rate City annual analysis of big four*
4. *MFAA quarterly broker statistics Dec 2021*
5. *Source: theguardian.com/business/2022/apr/29/interest-rates-are-set-to-start-rising-what-does-that-mean-for-mortgage-holders-and-homebuyers - Date: April 2022*
6. *https://www.accc.gov.au/media-release/home-loan-borrowers-missing-out-on-significant-savings-by-not-switching*
7. *MPA Magazine 03/06/22*

Make sure you read our article on **'How To Prepare For Your Interest Rate Review'**

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