
Lenders have upper hand if you want to switch
Banks oppose reform drive
Don't dump quality during slump

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Lenders have upper hand if you want to switch

Banks oppose reform drive

Treasurer Wayne Swan told people to swap banks if they're unhappy but **Jason Bryce** says it's not that simple

THE banks are fighting reforms that aim to increase competition in the industry.

Federal Treasurer Wayne Swan said recently that bank customers who were unhappy paying higher interest rates on their mortgages should "vote with their feet" and change lender, but for many consumers that is not as easy as it sounds.

Mortgagors are faced with high and increasing exit fees payable when a mortgage is paid out early. Even ordinary deposit account holders face big barriers to switching.

Mr Swan said last week: "I think a lot of people sign up for loans and haven't got a clue that they may have signed up to a very hefty exit fee."

He promised action to improve banks' competition.

Mortgage and Finance Association research from last year indicates that of all home loans written, about one-third are refinances, with one-third of those borrowers moving to a new lender.

Mortgage and Finance Association chief executive officer Phil Naylor said: "What happens is that when your existing lender hears that you are looking to move, they take steps to keep you, and two-thirds of refinancers stay with their existing lender.

"There are some lenders with punitive break fees but it is not across the board."

Early exit fees on mortgages have been trending up since the introduction of the comparison rate requirement in 2003. The comparison rate is basically equivalent to the interest rate plus up-front fees and charges. It is intended to provide an easy way to compare mortgage costs.

However, exit fees are not included in the comparison rate equation, leading many lenders to lower up-front application fees on mortgages and raise back-end exit fees.

Mr Naylor said the comparison rate was almost meaningless and should be abolished.

"It is alarming that comparison rates are presented to consumers as the yardstick for choosing a home loan when there are so many other important factors that need to be considered," he said.

Those "back end" fees include deferred establishment fees, penalty fees for late payments, fees on optional features such as a redraw facility and fees charged by third parties such as brokers, advisers or mortgage originators.

The biggest back-end fee is usually the deferred establishment fee, sometimes called the "break" fee or early-exit charge. It applies if the loan is paid out in full within the first few years, typically the first four to five years. Break fees are often as high as $1500, or a percentage of the outstanding loan amount.

Bank customers seem less inclined to switch their bank accounts than their mortgages. Even though about one-third of bank customers report they are unhappy with their deposit account, according to Roy Morgan research, just 3.1 per cent switch each year, according to the financial industry self-regulator the Australian Payments Clearing Association (APCA).

In Britain, up to 6 per cent of customers are said to switch banks annually.

Direct debits and direct credits to and from bank accounts make switching to a new bank or credit union a complicated process for many customers, according to consumer groups.

Each direct-debit request must be in writing and transferred to the new bank when a customer changes institutions.

Many billers and virtually all employers now insist on using direct debit or credit to trans-

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act with their employers and customers. The system is also used by many people through their internet banking facilities.

Failure to transfer the direct-debit requests can result in high penalty fees being charged when the next direct debit is attempted by the biller.

A spokesperson for consumer group Choice said: "Consumers typically have from several to many direct transfer arrangements in place, and the average number per consumer is growing under pressure from the businesses they deal with. The switching barriers reduce the effectiveness of competition in the banking sector and thus ultimately harm consumers."

The previous federal treasurer, Peter Costello, asked APCA to investigate the issue and report on ways to improve it to assist consumers. APCA has since issued a discussion paper and collected submissions from the financial institutions, most of which oppose big changes to the system.

Paul Rickard, the Commonwealth Bank's executive general manager of premium business services, writes in a submission to APCA: "The existing process for switching accounts is relatively straightforward. The process of switching accounts requires a small amount of manual processing to inform direct-credit users and direct-debit users of the new account number, but it works well."

St George's acting retail group executive, George Beatty, told APCA that: "Direct credit and debit arrangements do not provide a significant impediment to account switching in Australia."

ANZ said it supported change but only on a user-pays basis. That is, you pay a fee to the bank to change all your direct debits and credits over to the new account.

The credit union association, Abacus, said there was a mismatch between the numbers of unsatisfied customers and those who actually switched institutions. Abacus wants the "old financial institution" to provide a listing of all direct debits and credits to the "new financial institution" when a customer switches.

Gordon Renouf, policy and campaigns director at Choice, last week said: "Vigorous competition between lenders will only happen if consumers can switch institutions readily."

BEST RATES

Premium variable home loans — TOP FIVE		5-year standard fixed home loans — TOP FIVE		Premium variable home loans — TOP BANKS	
Railways CU	7.70%	Westpac	8.25%	Virgin Money	8.09%
Collins Home Loans	7.84%	HomeSide Lending	8.29%	Commonwealth	8.67%
RAMS	7.88%	nab	8.29%	nab	8.69%
Macquarie Bank	7.89%	RAMS	8.29%	Bank of Queensland	8.72%
Members Equity	7.99%	Aussie Home Loans	8.34%	ANZ	8.77%

NB: comparison rates may differ because of the effect of fees and charges

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QLD HOME LOAN FEES

Institution	Variable rate (%)	Application fee	Exit fee	Early termination fee (Main conditions only)
AIMS Home Loans	8.55	$660	$300	0-3yrs = 2 payments, 4-5yrs = 1 payment
ANZ Bank	8.77	$500	$160	-
Aussie	8.45	$500	$215	Yr 1 $1500, Yr 2 $1000, Yr 3 $500, Yr 4+ $0
Bank of Queensland	8.57	$495	$250	$495
BankWest	8.52	$700	-	-
Bendigo Bank	8.60	$150	$30	-
Cairns Penny Savings & Loans	8.50	$650	$160	-
Capricornia Credit Union	8.49	$400	$100	$590 deferred establishment fee (DEF) if loan repaid within 5 yrs.
Citibank	8.76	$399	$300	Min $1000, max $1500
Commonwealth Bank	8.67	$450	-	A DEF may apply if loan starts at guaranteed or discounted interest rate and repaid within 4 yrs. $700
CUA	8.49	$600	-	$350-950 DEF payable if the loan is paid out within 3 yrs
Five Star Home Loans	7.69	-	-	If the loan is paid in full and discharged in the first 5 yrs there is a DEF equal to 1 notional monthly repayment.
GE Money	8.12	-	-	0-12mths = 1.75%, 13-24 mths = 1.5%, 25-36 mths = 1.1%, 37-48 mths = 0.75%, 49-60 mths = 0.4%
Heritage Building Society	8.33	$600	$200	$800 is payable if the loan is repaid in full within 1 yr
HSBC	8.57	$500	$300	$1000 DEF if loan repaid within 3 yrs
ING Direct	8.04	-	$250	DEF: Yr 1: $1400, Yr 2: $1050, Yr 3: $700, Yr 4: $350
Macquarie Bank	8.05	$240	$500	DEF: $2000 (Yrs 1 & 2), $1000 (Yr 3) & $500 Yr 4
Members Equity Bank	7.99	-	$200	$600 set-up recovery cost if loan repaid within 5 yrs.
Morgan Brooks DIRECT	7.92	-	-	1.5 times the notional repayment within first 5 yrs
Mortgage Ezy	7.79	$440	$550	Yr 1-3 Max 1.8%, Yr 4 Max 1.5%, Yr 5 Max 0.90%
MyRate	7.69	-	$250	DEF Year 1: 1.00% of the original loan amount Yr 2: 0.80%, Yr 3: 0.60%, Yr 4: 0.40%, Yr 5: 0.20%, 6 + yrs 0%
NAB	8.69	$600	-	$900 for contracts issued on or after 23/10/06, payable if loan amount is repaid within 4 yrs
Professional Lending Corp	8.19	$116	-	1.50% of the facility limit in the first 5 yrs.
Qld Professional Credit Union	8.05	$500	$75	-
Qld Teachers Credit Union	8.57	$515	$274	-
Queenslanders Credit Union	7.79	$595	$150	1.25% from 0 to 2 yrs, 0.75% from 2 to 4 yrs, 0.5% from 5 yrs.
QuickDirect	7.64	-	$150	1% during yr 1, 0.8% during yr 2, 0.6% during yr 3, 0.4% during yr 4
Railways Credit Union	7.80	-	$600	Fee applies if the mortgage secured loan is paid out within 3 yrs.
RAMS Home Loans	8.65	$395	$295	1% of limit Yr 1-3
RateBusters	7.65	$990	$300	DEF applies for 1st 5 years, as follows: 1.2% original loan amount Yrs 1 - 3, 0.8% original loan amount Yr 4, 0.6% original loan amount Yr 5, plus early termination charge $550
RESI Mortgage Corporation	8.09	-	$275	One month notional payment, if less than $500k, two months notional payment, if greater than $500k.
St George Bank	8.77	$600	$350	-
Suncorp	8.72	$600	$250	DEF applies if the loan is paid out within first four yrs.
The Rock Building Society	8.57	$600	-	Yr 1 or Yr 2 min $1500 or 0.25% (whichever greater), Y3 min $1200 or 0.20% (whichever greater), Y4 min $900 or 0.15% (whichever greater)
Virgin Money	8.09	-	$200	$1, 500 (Yrs 1 and 2), $850 (Yr 3) and $500 (Yr 4)
Westpac Banking Corporation	8.72	$600	$250	DEF of $700 is if loan closed within 4 yrs
Wizard Home Loans	8.57	$100	-	For construction option only, a DEF applies if loan is paid out in full within the 1st 4 yrs. This will be calculated as a percentage of the original loan amount as follows: Mths 0-12 0.90% mths 12-24 0.70%, mths 24-36 0.50%, mths 36-48 0.30%, after 48 mths nil

Source: InfoChoice