

Bank policies change in the blink of an eye!

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How quickly things can turn around when it comes to the world of finance. Banks are fickle institutions, making it nigh on impossible to borrow money one minute and then almost throwing it at customers the next!

Not too long ago, we were lamenting the fact that lenders were tightening the purse strings in the wake of the global financial crisis and a fear that our finance sector could go pear shaped as we saw happen in the US, with the widely publicized collapse of a number of large players.

Today though, it's a very different story and in fact, things have come so full circle that the hint of increasing competition between the majors that was blowing in the wind earlier this year has ramped up to an almighty battle of the big boys.

We are now seeing fierce campaigns to win business between the banks and even smaller lenders, so now is the perfect time to assess your financial position; review your loans, refinance and get your financial ducks in a neat little row while money is easier to come by.

I would even go so far as to say that if you do require a nice little line of credit or an offset account with some extra cash as a financial buffer to see you through the next few years, now could be the best opportunity you'll have for some time to come to put these contingencies in place.

Be warned though...lenders and indeed mortgage brokers are now working under new regulations that were introduced as at 1st January that require all loans be assessed with regard to the borrower's capacity to repay the debt. The new legislation specifies that the loan being recommended is "not unsuitable" and therefore your financial position is likely to be more carefully scrutinised.

If you're in good fiscal health though, with adequate income and of course, a property investment

portfolio or even your own home in which you have substantial equity, do not fret. You are one of the attractive customers that banks want to throw their money at!

Some interest...ing offers!

Discounts on interest rates are something that most people fail to ask for when applying directly to a bank for a loan. Haggling is not something that comes naturally to Australian borrowers. Fortunately though, in an attempt to win business many lenders are now aggressively marketing some very appealing interest rate discounts.

This is a new trend – not so much offering a cut of maybe 0.5% on your average variable rate when you borrow say \$250,000 plus – but advertising the fact that they're prepared to do a deal is certainly something we have rarely seen from the banks.

Today though, the more you borrow, the more generous discounts the banks will be prepared to consider. In some instances, you could be looking at saving as much as 1% on your investment debt if you borrow \$750,000 or more. And if you intend to take a loan for around \$250,000 plus, expect an offer of around 0.8% off the going variable rate.

In other words, if you are thinking about purchasing a property for say \$500,000 and you require borrowings of \$400,000 to do so, it's likely that if you borrow at the maximum allowable loan to value ratio and leave the additional funds in a LOC or offset account, you'll be better off in terms of the rate discount you are eligible for. Not bad right?

By ramping up your borrowings – within your capacity to repay the debt of course – you could actually get a much better deal from your lender! And of course you will have a nice financial buffer to better manage your cashflow in the years to come.

Should you “fix” it?

With continuing uncertainty as to exactly where interest rates might be heading in the near future, some consumers are still debating whether they should go with a fixed rate mortgage product to err on the side of caution.

While many jumped on the fixed rate wagon when rates initially began to climb, it has now become a bit of an obsolete argument and most industry experts are suggesting that the variable rates on offer, particularly when they come with a generous discount, are far more enticing.

In fact statistics reveal that less than 10% of borrowers are currently opting to fix their interest rates and at the end of the day, while rates might go up and down with very little warning on

occasion, you tend to win with a variable product in the long term.

Fee free

Unless you've been living under a rock for the first five months of 2011, you'll be aware by now that treasurer Wayne Swan decided to play Super Boy for Australian borrowers and has attempted to get tough on the banks.

At the end of last year, when the majors decided to increase their retail rates above and beyond the official Reserve Bank rate rises, Swan saw red and promised to introduce legislation that would see the abolition of exit fees on loans and in his view, encourage competition by doing so.

The new ruling comes into effect officially on July 1, however many lenders have jumped the gun in a bid to win and retain customers, offering to waive their exit fees now and in some instances, pay any exit fees to your existing lender if you opt to bring your business over.

This can make it easier (and cheaper) for borrowers to review their existing loans and determine whether or not now is the time to switch to another lender.

Be aware though that the banks are not in the business of generosity. They are of course a business and like any business, want to maintain and increase their bottom line. So look out for higher establishment or ongoing administrative fees if you do elect to go with a different bank and/or product.

Loosening the LMI reigns

Lender's mortgage insurance is often a bug bear for investors and home buyers who choose to contribute a lower deposit to the purchase of their property. Say you wanted to pay a 15% deposit on your next purchase rather than 20%, leaving you with an LVR of 85% - in the past you would be slugged thousands of dollars in LMI fees on top of your borrowings to do so.

And of course this is not to cover your behind if anything goes pear shaped and you can no longer meet your repayment obligations, instead it protects the lender.

Now though, with the resuscitation of competition in the banking sector, a few select lenders like Westpac and ING are offering to reduce the cost of LMI if you borrow between 80 and 85% or between 85% and 90% in case of Westpac. While this might not seem like much in writing, on a \$500,000 purchase you could save around \$2,650 on LMI fees in the case of ING and about \$930 in the case of Westpac.

A borrower's market

The take home message for borrowers is that the banks want you! They want your business now more than they have done for perhaps the last decade and are willing to make some fantastic offers in order to clinch new deals and retain existing customers. Even if you don't want to switch lenders, try talking to your banks to see if they can do a better deal than the one you're currently getting.

And remember – there's no harm in having extra cash handy for a rainy day, which are almost inevitable when you have a property investment portfolio. Vacancies, unexpected maintenance and interest rate rises can all put a dent in your cash flow, so setting up a good line of credit or offset account buffer while you have the opportunity to do so is a very good idea. And you can take that to the bank!

[To find out how much you can borrow or to learn more about how Metropole Finance can help you click here to book a complimentary free phone consultation.](#)

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