

How to save \$34,000 over two years on your home loan

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With the first of three tranches of nearly 2 million fixed-rate mortgages set to expire next month, lenders are jostling for borrowers by offering double-digit discounts and cash incentives, say mortgage brokers.

Brokers claim competitive lenders are holding confidential briefings with them to slash standard variable rates (which vary from about 3.14 per cent to nearly 7 per cent) by around 280 basis points.



Borrowers are also considering their options in the build up to next Tuesday's RBA meeting and potentially the sixth successive interest rate rise. **Danny Smith**

Someone exiting a two-year fixed-rate \$1 million loan could save \$33,000-\$34,000 over two years by switching to the lowest variable or two-year fixed mortgage, according to RateCity, which monitors rates and fees. Doing nothing would mean they'd be moved to the standard variable rate which could reach 5.66-6.91 per cent over that time.

Nearly 30 lenders are offering mortgage cashback offers to attract new customers. They range from \$1500 to \$10,000, subject to loan size.

Fixed-rate loans (including loans split between fixed and variable rates) worth more than \$450 billion are due for renewal [<https://www.afr.com/companies/financial-services/lenders-cut-costs-ahead-of-surge-in-fixed-rate-renewals-20220805-p5b7lq>] over the next 18 months, analysis of bank results reveals.

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Most fixed rate loans were locked in when fixed rates slipped between 1.95 per cent and 2.09 per cent as cash rates dipped to 0.1 per cent.

October's first tranche will be followed by waves in June-July next year and in March 2024, according to bank analysis.

Mortgage brokers describe the discounts lenders are offering as “massive” and an “unprecedented” attempt to hold on to borrowers and attract new business.

“Lenders are briefing brokers about their strategies for the huge number of expiring fixed-rate mortgages that include some of the biggest discounts I’ve seen,” says Phoebe Blamey, a director of Clover Financial Solutions. “Borrowers whose fixed rates are coming to an end need to start planning now.”

National Australia Bank and its mortgage subsidiaries Advantedge and other white label providers have been holding meetings to brief mortgage brokers about the discounts in advance of the expected refinancing surge.

They are also contacting their existing borrowers by SMS, email and letter with “personalised” details about fixed and variable rate options. Other lenders are expected to roll out similar strategies.

“This is an opportunity for lenders to grab market share and for borrowers to haggle,” says Chris Foster-Ramsay, principal of Foster Ramsay Finance. “A market where fixed rates are expiring and variable rates are rapidly rising is a great opportunity to attract new borrowers.”

Barry Thatcher, of Thatcher Finance, which specialises in residential and commercial mortgages, says the big banks typically have much higher standard variable rates than smaller competitors.

He adds: “They have to offer big discounts to get their rates back to a competitive market rate. Their conditions can also be more opaque. Borrowers need to check rates and conditions on a like-for-like basis.”

Mortgage brokers claim lender competition for new borrowers

[<https://www.afr.com/wealth/personal-finance/how-to-play-hardball-with-your-lender-to-cut-mortgage-costs-20220812-p5b9ea>] – and retaining existing ones – will intensify over coming months as record numbers of borrowers consider their next move.

Borrowers are also considering their options in the build up to next Tuesday’s Reserve Bank of Australia meeting and an expected rise of 50 basis points, which would be the sixth successive increase in six months.

Continued local inflationary pressure and last week’s 75 basis point rise in rates by the US Federal Reserve have heightened expectations of a cash rate rise, say analysts.

According to exclusive analysis by RateCity, it is “critical” for borrowers to carefully consider their options, including considering deals outside the big four.

The accompanying table shows options for a borrower with a major lender rolling-off a two-year fixed rate with \$1 million owing and 25 years remaining.

Options include rolling on to the bank’s revert rate, switching to a new loan offered by the existing lender or refinancing.

The revert rate is typically the standard variable rate for that product and is often much higher than discounted rates offered to new borrowers.

The estimated average reversionary rate for the big four lenders by December will be about 6.4 per cent, an increase of nearly 400 basis points from the two-year fixed rates offered in December 2020.

“The take-out is that it is critical to do something, as opposed to doing nothing, and that shopping beyond the four walls of your bank is likely to save you a lot of money,” said Sally Tindall, RateCity research director.

The analysis does not include the impact on repayment of cash backs.

It shows the borrower could save nearly \$34,000 over the next two years by switching to the lowest variable rate on the market compared to doing nothing. Switching to the cheapest two-year fixed rate would save nearly \$33,000.

Lenders continue to cut their two-year fixed rates.



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For example, Bank of Melbourne, which is part of the Westpac Group, last week reduced the comparison rate on its two-year fixed loan by 15 basis points to 5.49 per cent. The comparison rate (which includes fees) is 6.28 per cent.

According to mortgage broker Lendi, about half the borrowers on a fixed rate do not know their revert rate.

“That’s what banks rely on and it’s the reason why they can offer such big discounts to more switched-on borrowers,” says Blamey.

Fixed-rate lending during 2020-21 increased from 10-15 per cent of lending to more than 40 per cent. Those two- and three-year fixed-rate terms are beginning to expire and have to be replaced.

Leading lenders revealed the value of loans coming off fixed rates in their recent result presentations. CBA, the nation’s largest lender, estimates that \$22 billion will be expiring before December and another \$95 billion next year. At Westpac, the second-largest lender, the respective numbers are \$21 billion and \$86 billion.

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