Remortgage Secrets:

“How to use smart finance to reduce your loan repayments and have more money in your pocket every month”.

By Declan Clare

About the author:

Declan Clare is Managing Director of Home Buyers Website Moving.ie.

He also provides consultancy services to one of Ireland’s biggest independent mortgage brokers, Mortgages Direct

He has worked in the mortgage industry in Ireland and Australia for nearly ten years.

Introduction:

Before I outline the 8 remortgage secrets, I'll like to ask you one question:

"Why do you think the Irish Banks are among the most profitable in Europe?"

Well there are quite a few reasons, but let's briefly talk about a few fundamental reasons why the banks are so profitable.

- There has been an explosion in personal finance in the last decade

- The banks tend to offer better rates to their new customers, at the expense of their existing ones, because they hope that it'll be too much hassle for us to move bank (by the way, this works pretty well for them)

- By lending money at different interest rates for different types of finance, the banks can maximise their profits from lending us money.

- They pay us peanuts in interest for saving money with them and then make a fortune by lending it back to us.

Maybe secret no 1 should be to buy shares in the banks!!!

This guide will help you take some of the profit away from the banks and put it back into your pocket. You'll quickly see how you can save thousands of euros every year by making a few simple changes. And if what you read makes sense, please tell your friends, because chances are, they'll save thousands too.

Isn't it time to say goodbye to 'Rip Off Ireland'?

Contents

Remortgage Secret #1

If you took out your mortgage more than 2 years ago, you are paying too much money. It's as simple as that.

There are very few incentives for the banks to look after their existing customers, because they already have your business.

Did you know that if the banks dropped their rates by half a percent (to bring them in line with to best rates in the market), they would lose hundreds of millions of euros in profit every year?

Instead of taking this drastic action, the banks offer good rates to new customers, leaving their existing clients with more expensive rates.

Most people don't review their finances very often, and many people feel that it's a hassle to move their mortgage or current account or loan accounts. With that in mind the banks feel that if they lose a few of their existing customers by not being competitive, it's not the end of the world, because it's a lot cheaper than dropping their rates for everyone.

But for *new customers* it's a different story.

The mortgage market has become a lot more competitive for new customers in the last few years – there are much cheaper variable, tracker and fixed rates available to new customers than ever before, thanks to the introduction of more competition.

Take this typical example. One of Ireland's biggest mortgage lenders (which holds about one in every 4 mortgages in Ireland) has a variable rate for it's existing customers of 3.6% apr.

Since your house has gone up in value over the last few years, you've probably built up quite a lot of equity. This means you're less of a risk, and more attractive as a potential new customer, to the other banks.

If you swapped your mortgage to a different lender, you could get what's called a 'tracker mortgage' as low as 2.9% apr – a direct saving of 0.7%.

(0.7% might not sound like much, but over 20 or 30 years, it really adds up)

That rate isn't an introductory rate, or a short term offer, that's a saving each and every month for the whole term of the mortgage.

It's probably best to give an example, in euros and cents.

Lets say you took out your current mortgage over 30 years, and have being paying it for the last 5 years, so have 25 years to go. We'll assume that your current balance is €200,000 - you would be paying €1006.62 per month (3.6% apr) to your current bank or building society.

You decide to swap this over to a new lender at 2.9% apr – over the exact same remaining term of 25 years.

Your new repayment would be €932.89 – a saving of €73.73 every single month for the next 25 years. That's a saving of €884.76 in the first year alone, or €22,119 over the remaining 25 year term.

That's some saving. Think about what you'd have to earn before tax to have an extra €22,119 in your pocket.

In summary,
Remortgage Secret #1: almost all of us pay too much interest on our mortgages, and we could save €1,000's by just swapping the mortgage to a different lender.

Remortgage Secret #2 – Don’t worry, there’s no need to extend your mortgage term

When most people think about remortgaging, they think that they’ll have to extend their mortgage term.

It’s simply not true. Most adverts for remortgaging, base their figures on 30 or 35 year terms, because the monthly ‘savings’ appear to be huge, when you compare a ‘before’ and ‘after’ remortgage example.

But the truth is, you can keep the exact same term as you currently have.

If you want to drastically reduce your outgoings, extending the term is an option, but you can keep the exact same mortgage term if you’d like.

So if you have 22 years left on your mortgage, you can swap it to a new lender, keep the mortgage over 22 years, and avail of the lower interest rates available on the market right now.

In summary,
Remortgage Secret #2: You don’t have to extend your mortgage term when you remortgage – in fact you can reduce the term if you like.

Remortgage Secret #3 – Use Consolidation to get the cheapest short term finance in Ireland.

When you take out a personal loan, the natural thing to look at is the monthly repayment. The first thing that most people think when they take out a loan is that "it's only 150 quid a month", rather than what rate they are paying.

The alternative is to consolidate your loans with your mortgage; that way you can get the lowest loan rates in the country, for your car, home improvements, personal loans – whatever!!!

Sounds simple? That's because it is.

Why should you pay 8 or 10% on your car loan, when by adding it to your mortgage, you could pay in the region of 3% instead?

So let's say for example, you have a 5 year car loan for €25,000. Let's assume your bank will offer you a rate of 8% (you might get a rate a little higher or a little lower, depending on the bank). Your car loan repayments would be €506.91. By adding it to your mortgage, at a tracker rate of 2.9% (and keeping the payment over 5 years), your payment would be €448.11.

That's a saving of €58.80 per month for the exact same money over the exact same term. (And if you are on the higher rate of income tax, you'd have to earn more than €100 per month extra to have €58.80 in your pocket – so effectively, getting smart finance for this car, is the equivalent of a €1200 per year pay rise.)

Over the 5 year term, you'd save a staggering €3528 after tax – just on your car finance alone. If you have a few different loans, think about what you could save…

In summary,
Remortgage Secret #3: By taking advantage of the lower rates available to mortgage holders, you can save €1,000's on your short term finance, without extending your loan term.

Remortgage Secret #4 – You can ‘split your mortgage’

Remortgage Secret #3 leads us to the next secret.

Most people think that if they are consolidating their existing loans by remortgaging, they have to pay them off over the whole term of the mortgage.

Lots of people say ‘I don’t want to pay my car loan over 30 years’.

Well you don’t have to.

You can ‘split’ the mortgage and pay your car loan over 5 years, pay your credit union loan over 3 years and pay the mortgage over the 22 years you currently have remaining.

In summary,
Remortgage Secret #4: split your loans to suit your repayment budget and pay them off as quickly (or as slowly) as you like.

Remortgage Secret #5 – Keep the cost of remortgaging as low as possible, by choosing the right provider.

When you remortgage your home, you will incur some costs.

However, it's important to keep in mind that it's an investment in rationalising your finance at much better rates. Invest a little for a big return.

There are two things to keep in mind – first, you can add the remortgage costs to your new mortgage, so you don't need to have the cash upfront.

Secondly, you need to choose your provider well, in order to keep the costs as low as possible.

I've worked for both lenders and mortgage brokers (and currently work as a consultant for one of Ireland's largest brokers), and given my experience, I believe you should use an independent broker if they can satisfy these two following conditions:

(1) They are a good independent broker with a wide selection of lenders that you can choose from and

(2) They are a broker who doesn't charge an arrangement fee to sort out the mortgage for you. (Some brokers charge fees of up to €750 to arrange your mortgage, but you can find lots of brokers who don't charge you a penny).

The main costs you will incur are:

(1) Legal fees (most brokers and lenders provide a service called 'express cheque' at a cost of €999 all in).

(2) Mortgage Stamp Duty (only on mortgages in excess of €254,000)
This works out at 0.1% of the mortgage amount + €12.50.
So for example a mortgage of €300,000 would incur mortgage stamp duty of €312.50.

(3) Mortgage Valuation Fee of about €130 - €150.

In summary,
Remortgage Secret #5: choose a mortgage provider that offers you a wide range of products from different lenders, and one that doesn't charge you an arrangement fee.

Remortgage Secret #6 – How to keep the banks honest.

There are lots and lots (and lots) of different types of mortgage products on the market now and lots of different types of rates available.

Your current mortgage is probably a variable rate mortgage. A variable rate goes up and down depending on wholesale money rates and market competition.

But the thing about variable rates which a lot of people don't know is that the banks can raise them whenever they want, without any reason.

So if they decide they want to charge a bigger margin and make more money out of you, there is nothing to stop them raising their rates in the morning.

The best example of this happening was actually when wholesale rates were being reduced by the European Central Bank (ECB). The ECB dropped their rates by 0.5%, and one of the biggest lenders in the country decided to only pass on 0.3% of this reduction, keeping the rest of the reduction for the bank.

What can we do about this?

The good news is that there is a type of variable rate mortgage called a 'tracker mortgage', which helps keep the banks honest.

Tracker mortgages were introduced to Ireland by Bank of Scotland, and the other banks reluctantly started to offer them too, as they were losing business.

Tracker mortgages have a 'price promise' written into the letter of offer you receive from the bank, and that price promise is legally binding.

Your contract will outline that your mortgage rate is based on the ECB rate (i.e. the wholesale rate) + x% margin. So while the ECB can raise their rates, the banks margin will remain the same for the whole term of the mortgage.

So while your rate will go up and down depending on how the economy is doing, the bank can't stick in the knife just to keep their shareholders happy. By choosing a tracker mortgage, you are not just getting a mortgage that is competitive today, you are getting a mortgage that should be competitive for the term of the mortgage.

In summary,
Remortgage Secret #6: choose a interest rate that is not just competitive today, but one that will be competitive for the term of the mortgage. My own mortgage is a tracker mortgage.

Remortgage Secret #7 – Don't Worry - It's easier to borrow money than ever before.

There are literally thousands of people who know that remortgaging makes sense (and would save them a lot of money) but they are reluctant to get the paperwork together, just in case their application is turned down.

The thing is, it has become much easier to borrow than ever before. Five years ago, most banks would lend a couple, two and a half times the main earners yearly salary and one time the smaller income.

Today, there are lenders who will consider lending around 4.5 – 5 times *both* salaries, or sometimes even more.

So even if don't earn much more than you did when you took out your mortgage originally, you should qualify for a much bigger mortgage today.

In summary,
Remortgage Secret #7: chances are, if your circumstances are broadly similar to the last time you took out a mortgage, you'd qualify for a much bigger mortgage this time around.

Remortgage Secret #8 – Think twice about remortgaging.

After all I've said, why would I tell you to think twice?

Well, this section primarily relates to people who have a fixed rate mortgage.

When you take out a fixed rate mortgage with a Bank or Building Society they 'go to the market' and buy the funds, which they resell to you.

As a result if you decide to pay off your mortgage while you're on a fixed rate, they'll charge what they call a 'breakage' fee. Generally speaking, the longer the fixed rate you're on, the bigger breakage fee they'll charge you.

So if you are currently on a fixed rate, this is what I'd advise you to do – call your bank and tell them you are thinking about paying off your mortgage, and ask them for the fee to 'break' the fixed rate.

(If they ask too many questions, you could say that you are thinking about moving home).

This doesn't commit you to doing anything, but at least you'd be able to factor in the cost. If the breakage fee isn't too high, it might still be sensible to refinance. But sometimes the fees can be quite high, so it might be better to hold off until the fixed rate runs out.

In summary,
Remortgage Secret #8: If you have a fixed rate mortgage, call your bank to find out what fee they'll charge you to pay off the mortgage. Only then can you see if a remortgage is sensible.

Remortgage Example 1 – paying off your mortgage & loans and keeping the exact same term.

Before:

	Balance	**Interest**	**Term**	**Repayment**
Mortgage	€200,000	3.6% apr	25 years	€1006.32
Car Loan	€25,000	8% apr	5 years	€506.91
Credit Union	€12,000	9.5% apr	3 years	€384.40
Personal Loan	€8,000	8.7% apr	3 years	€253.28
Total				**€2150.91**

After:

	Balance	**Interest**	**Term**	**Repayment**
Mortgage	€200,000	2.9% apr	25 years	€932.89
Car Loan	€25,000	2.9% apr	5 years	€448.11
Credit Union	€12,000	2.9% apr	3 years	€348.45
Personal Loan	€8,000	2.9% apr	3 years	€232.12
Total				**€1961.57**

Interest Savings Year 1:	**€2272.08**
Total Savings on Loan Repayments	€5601.96
Total Savings on Mortgage Repayments	<u>€22029</u>
Total Mortgage & Loan Repayment Savings	**€27630.96**

Remortgage Example 2 – paying off your mortgage & loans and consolidating over a 25 year term.

Before:

	Balance	**Interest**	**Term**	**Repayment**
Mortgage	€200,000	3.6% apr	25 years	€1006.32
Car Loan	€25,000	8% apr	5 years	€506.91
Credit Union	€12,000	9.5% apr	3 years	€384.40
Personal Loan	€8,000	8.7% apr	3 years	€253.28
Total				**€2150.91**

After:

	Balance	**Interest**	**Term**	**Repayment**
Mortgage	€200,000	2.9% apr	25 years	€932.89
Car Loan	€25,000	2.9% apr	25 years	€448.11
Credit Union	€12,000	2.9% apr	25 years	€348.45
Personal Loan	€8,000	2.9% apr	25 years	€232.12
Total				**€1142.79**
Monthly Repayment Reduction:				**€1008.12**

Free Financial Review Offer:

If what we've discussed make sense to you, I'd like to offer you a free 'smart finance' review – to see if a remortgage is worth *your* while. It usually take approx. 24 – 48 hours for your free personalised report, which is provided by independent mortgage brokers, Mortgages Direct.

Mortgages Direct are regulated by the Financial Regulator as a multi agency intermediary and a mortgage intermediary.

It's absolutely free, and you have no obligation to arrange your remortgage through us or anything like that (but if you decide a remortgage makes sense, we'd be happy to arrange it for you).

Simply print out the form on the next page, fill it out and fax it to 01 2163322. (If there's not enough space on the form for all your loan details etc, feel free to add additional details on a separate page).

Alternatively, simple go to:
http://www.MyRemortgage.com/free_financial_review.htm
Fill in a few details there and you'll get a report emailed to you.

Financial Review Form: **(Fax to 01 2163322)**

First Name: ________________________________

Email Address: ________________________________

Phone Number (optional): ________________________________

Current Mortgage Balance (approx figure okay) __________________

Current Mortgage Lender ________________________________

How many years remain on your mortgage __________________

Existing Loans:

Loan 1:	Lender	__________________
	Monthly Payment	__________________
	Approx Balance	__________________
Loan 2:	Lender	__________________
	Monthly Payment	__________________
	Approx Balance	__________________
Loan 3:	Lender	__________________
	Monthly Payment	__________________
	Approx Balance	__________________
Loan 4:	Lender	__________________
	Monthly Payment	__________________
	Approx Balance	__________________

About You:

Your Basic Yearly Pre tax Income: ____________________________

Partners Basic yearly Income: ____________________________

Your Age / Your Partners Age: _____________ _____________