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Now is the perfect time to shop a...

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Now is the perfect time to shop around

By Alex Tibury | June 22, 2009 12:00am

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http://news.com.au/couriermail/money/story/0,26844,25667256-5015825_00.html

FOR the past 18 months, the Commonwealth Bank lured home loan customers with the cheapest rate among the big four banks. Then the market-dominating bank smacked an extra 0.10 per cent in interest, taking its variable rate to 5.64 per cent, and adding about \$200 million to \$300 million to its bottom line each year.

CBA cited rising wholesale funding costs and intense competition as the reasons for its unpopular move.

Then the NAB, Westpac and St George followed and increased most of their fixed mortgage rates by 0.5 per cent to above 7 per cent.

The political anger against mortgage rate rises intensified even as the Reserve Bank acknowledged deposit competition was pushing up the major banks' cost of funding home loans.

Prime Minister Kevin Rudd last week said the Commonwealth Bank's decision to hike its variable home loan rate was likely to undermine economic recovery and Treasurer Wayne Swan called it "selfish".

JPMorgan economist Helen Kevans says CBA's decision, along with rising unemployment, could create a case for a further rate cut.

But Lisa Montgomery, national consumer advocate with mortgage specialist Resi, nailed the problem and called the Commonwealth Bank simply too big.

Last year, CommBank gobbled two of its biggest non-bank rivals, Aussie Home Loans and then Wizard and later bought BankWest.

"Not even the RBA is determining rates now, the banks are pricing them on their own and there is not much people can do," Montgomery says.

"The Commonwealth Bank opened the door for other lenders to walk through, and they are walking through because they are writing loans hand over fist.

"Wholesale funding costs have not relaxed but while other lenders have leveraged their appetite for new loans so they are not compromising consumers, the Commonwealth Bank hasn't, it has had an insatiable appetite for lending.

"This is where the equation doesn't add up. They should have had the foresight to meter their loan volumes so they wouldn't have to take this step.

"But they didn't and they don't want to because they know they would now have the power and the greatest market share to pretty much do what they want."

In the early 1990s, consumers saved about 4 per cent by choosing a non-bank lender, now most non-banks have been squeezed or consolidated beyond recognition.

Montgomery says the cheapest rates around are still at the non-banks, so shop around and do your homework before taking a new loan.

Australian Bankers' Association chief executive David Bell says CommBank's rate rise will restrict competition and hurt low-income consumers.

Mortgage broker, Loan Market Group, warns borrowers to prepare for rates to rise again after reaching near-record lows.

Loan Market Group executive director John Kolenda says the decision by the Commonwealth to increase its variable rate was a warning sign to homeowners.

Kolenda says borrowers should be trying to repay more than the minimum required on their loan to prepare for the inevitable future increases in interest rates.

"While it is very tempting to be using the savings from the lower rates now to boost the household's spending power, people are better off making as big a mortgage payment as they can afford," he says.

CommBank and NAB now both offer the lowest standard variable home loan rate among the big four banks at 5.74 per cent.

NAB says it has no intention of raising its standard variable mortgage rates.

Consumers are frightened and many moved to fix their home loan interest rates in the wake of the rate rises.