

Windfall for homes doing nothing

ANTHONY KEANE, MONEY EDITOR | February 08, 2009 11:30pm

- [Email article](#) 
- [Printer friendly](#) 
- Text size 
- Share 

Add your comments or read what others are saying

HOMEBUYERS are saving tens of thousands of dollars in interest repayments - by doing nothing. Mortgage experts say three-quarters of people with variable home loans are maintaining their repayments at pre-September levels despite huge cuts in the official interest rate by the Reserve Bank of Australia.

The Advertiser has crunched the numbers of a typical \$250,000, 25-year loan and found that maintaining repayments at last August's level would save a homebuyer \$112,000 in interest and cut the loan life from 25 to 14 years.

Those calculations assume rates will not go up and do not factor in more expected rate cuts in coming months.

Mortgage Choice senior corporate affairs manager Kristy Sheppard said her firm's consumer survey late last year found 75 per cent of people with variable loans were keeping their repayments at the same level. Two other surveys had similar results.

"It's pretty much a given that three-quarters of people aren't dropping their repayments. It shows that mortgage stress is probably not the large problem it's made out to be," Ms Sheppard said.

"It could be well over a decade they are saving. But borrowers really need to keep a close eye on their lender to see how much of the cut is passed on."

The Reserve Bank's rate-cutting spree has led to a surge in interest among first homebuyers, says online comparison website helpmechoose.com.au, which reported a big rise in home-loan inquiries last week in SA. "It's the most significant spike we have seen," site founder Adir Shiffman said.

Mortgage and Finance Association chief executive Phil Naylor said it was unwise to rush into a home loan simply because rates had fallen so much.

"The alignment between falling interest rates, government incentives and falling housing prices has not been seen by borrowers before. While it is quite an alluring combination, these are uncertain economic times," he said.

"The big unknown is the impact job security will have on deterring people from entering the market. It is possible people feeling unsure about the state of the economy and the future of their job will put off taking up a new loan."

Bernie Lewis Home Loans executive chairman Mark Lewis said while the official interest rate cuts from 7.25 per cent to 3.25 per cent had been "nothing short of extraordinary", they were necessary because of the weakening economy.

"I think we're in for some more cuts," he said. "Some commentators are predicting they will go down to 2 per cent. My prediction is 2.5 per cent."

A 2 per cent cash rate would likely result in a standard variable rate of 4.65 per cent assuming banks pass on the cuts.

"People need to focus on reducing their overall household debt," Mr Lewis said.

"In 1990, household debt was 40 per cent of household income. Now it's 160 per cent of income. Just because interest rates have come down, it doesn't mean debt has come down," he said.

Mr Lewis said people with higher-interest personal debt, such as credit cards and personal loans, should consider paying the money off those debts first.

"The focus has been so much on mortgages that the banks have not passed a lot of the rate cuts on to unsecured lending," he said. The infochoice.com.au website says interest rates on major credit cards offered in SA remain between 12.24 per cent and 19.49 per cent.

Paying off higher-interest debts first reduces your overall costs. "A dollar you owe at 20 per cent interest costs 20c interest a year. A dollar you owe at 5 per cent interest you are only paying 5c interest a year. If you owe \$1 would you rather repay \$1.20 or \$1.05?" Mr Lewis said.