

At least 30,000 mortgages should look to switch rates in 2020

- 80%+ of variable mortgage rate homeowners are still overpaying

Tens of thousands of Irish mortgage holders are significantly overpaying on their mortgage but are still reluctant to switch to lower rates, which is hindering market competitiveness and generally keeping rates high. This is the contention of experts from the Association of Irish Mortgage Advisors (AIMA) who say that, based on figures they have assessed, the volume of mortgage switching remains at one quarter of what it was at the peak of the boom, and that the vast majority of the 150,000 – 200,000 mortgage holders on standard variable rates are overpaying by hundreds, if not thousands of Euro, each year.

The mortgage broker representative group say that the 2020 mortgage switching figures should be at least double those of 2019 if there is to be any hope of driving down interest rates and ensuring all mortgage holders are getting the best value on the market. AIMA say that while recent figures show the switching trend is growing ever popular, the numbers are still below what they should be.

Trevor Grant, Chairperson of AIMA explained,

“The rate of mortgage switching in Ireland has more than trebled in the past four years, albeit from a low base. Just 5.4% of new private dwelling house credit was switcher related at the end of 2015, this has increased to 14.6% by mid-2019. Recent analysis from the BPFi shows that mortgage switching activity reached a peak in the 2007-08 period, fell to a low of 1.7% in 2013 but has rebounded today, which indicates a broadly positive trend”.

AIMA say the latest BPFi report on Mortgage Drawdowns¹ found that less than 5,887 (approximately 4% of all SVR mortgage holders) switched in the last 12 months - compared with 25,937 in 2007². The representative body hopes 2020 will see a significant uptick in these numbers.

Mr. Grant continued,

“The volume of outstanding SVR mortgages at the end of September was €20,291m³ – this is a sizeable portion of our mortgage market. We believe that less than one in five of these households are on the best available rate and therefore the majority could save by switching. In addition, if more people switched, the banks would be more likely to lower their rates to protect their market share – this is simple economics.

It is advised that mortgage holders review their rate and mortgage agreement every two years to ensure they are getting the best value – but in the last two years, just over 10,000 mortgage holders switched – out of a possible 150,000 – 200,000. This figure is far too low – ideally 30,000 SVR homeowners need to switch each year.”

AIMA contend that although there has been some growth in the number of people switching year on year, the pace has been too slow – particularly in the last two years when rates have dropped for new mortgages and banks have become increasingly competitive on fixed rates. The broker representative argues that homeowners should be coming in their droves to actively switch and save hundreds if not thousands of Euro, but that inertia and/or apathy appear to be preventing this.

¹ <https://www.bpfi.ie/wp-content/uploads/2019/10/BPFI-Mortgage-Drawdowns-Report-Q3-2019-for-website.pdf>

² [Download the BPFi Mortgage Drawdowns Report time series here.](#)

³ <https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/retail-interest-rates> Table B3.1 Retail Interest rates

Couple borrowed €300,000 x 30 years 2 years ago - now owe €288,820			
	Monthly repayment	Monthly savings	Total saving
Current mortgage @3.5%	€ 1,347.13		
SVR rate 2.95%	€ 1,261.55	€ 85.58	€28,755.05
5 yr fixed rate 2.5%	€ 1,208.73	€ 138.40	€32,159.24
assumes a loan to value of 80% or less			

Couple borrowed €350k x 25 years 3 years ago - now owe €323,668.66			
	Monthly repayment	Monthly savings	Total saving
Current mortgage @3.9%	€ 1,828.16		
SVR rate 2.95%	€ 1,668.05	€ 160.11	€42,268.66
5 yr fixed rate 2.5%	€ 1,595.17	€ 232.99	€49,777.30
assumes a loan to value of 80% or less			

Mr. Grant, went on to comment on other factors he believes hold people back when it comes to moving rate and/or lender,

“Many people got the best available deal at the time when they took out their mortgage and understandably assume it is still the best – however the reality is that it’s probably out of date by now. Others believe that if they remain loyal to their current bank, it will be reciprocated in some way – which is an absolute fallacy.

We also find that many on a fixed rate believe they simply can’t break their fixed rate contract and have to wait until it’s finished to make a move – again this is another falsehood that permeates the market and costs households money.”

Mr. Grant went on to advise,

“With access to seven mortgage lenders, it’s not hard for mortgage brokers to secure a better deal for the majority of mortgage holders. Those on trackers should stay as they are.”

ENDS

Notes to the Editor:

The Association of Irish Mortgage Advisors (AIMA) is Ireland’s dedicated mortgage broker body representing the majority of regulated mortgage intermediaries that hold agencies with all lenders. According to market statistics, over 27.5% of all First Time Buyers now use a specialist mortgage broker to help them to secure the best deal possible. Brokers also support 24.7% of homeowners looking to move or trade up and 33.6% of those switching for better terms. Overall, brokers represent 27.4% of the mortgage market.

Appendix: Switcher Case Studies

Example 1

Couple borrowed €300k x 30 years 2 years ago. Balance now €288,820.

Current rate 3.5% variable and payments of €1,347.13

They could move to a variable rate of 2.95% and have monthly repayments of €1,261.55 per month (saving €85.58 per month). Estimated interest saving over the remaining term of the mortgage of €28,755.05.

Alternatively,

They could move to a fixed rate of 2.6% x 3 years and have monthly repayments of €1,208.73 per month (saving €138.40 per month). Estimated interest saving over the remaining term of the mortgage of 32,159.24

Example 2

Couple borrowed €350k x 25 years 3 years ago. Balance now €323,668.66

Current rate 3.9% variable and payments of €1,828.16

They could move to a variable rate of 2.95% and have monthly repayments of €1,668.05 per month (saving €160.10 per month). Estimated interest saving over the remaining term of the mortgage of €42,268.66

Alternatively,

They could move to a fixed rate of 2.5% x 5 years and have monthly repayments of €1,595.17 per month (saving €232.99 per month). Estimated interest saving over the remaining term of the mortgage of €49,777.30

The above are rates which assume a loan to value of 80% or less (although significant savings may still be made at 80- 90% loan to value) and which a borrower can move to and have a contribution made to the cost of switching. There are lower fixed rates available where no contribution to cost is made and this is not attractive to customers.