



Mike O'Connor | THE WEDNESDAY INTERVIEW

Loan rate just the tip of the iceberg

THE fundamental mistake people seeking home loans are making at the moment, says Peter Cooper, is becoming obsessed by the mortgage rates they see in the media.

And banks, he says, are only interested in new customers, not looking after the interests of their existing clients.

Cooper worked in the banking industry for 28 years, resigning as St George Bank state manager in 2003 to start Cooper Financial Connections mortgage brokers and says the current obsession with rates played into the banks' hands.

"Looking for the cheapest rate is fine but there's a lot more to it than that," he said.

"Every bank has different policies and rules on everything. The first question I ask someone is are they happy with their present bank and can we renegotiate with it to get what they want?"

"What can they offer to keep them in terms of rates, fees and flexibility? Then we look at what the market is offering. What is out there compared with what their present bank is offering? What could be better?"

The problem, Cooper says, is that people tend to set-and-forget rather than review their banking arrangements every five years.

"People have different needs and wants at various stages of their lives. They get married,

have children, then there's the empty nest phase and then a retirement phase and in all of these phases, they need money for different reasons and no single bank or one product fits all these phases," he says.

What matters, he says, is the detail which can save borrowers thousands of dollars.

"Every bank has a different risk profile. They say they'll lend you the money at 6 per cent, however, in terms of responsible lending, they'll assess you to take into account movements in interest rates. If rates were to go up, could you still afford this facility?" he says.

Every bank takes a different approach in making this assessment, Cooper says. Some banks, he says, look at credit card limits and regard them as fully drawn to their maximum amount even if they are not and then factor in the repayments in deciding if you can afford a loan.

Other banks, he says, will ask to see three consecutive monthly statements showing that each month, the balance has come back to zero to establish if you are a good payer and a responsible borrower.

Cooper says mortgage insurance is another area in which borrowers can get caught.

"Every bank varies with mortgage insurance. They operate on a tier system. Working on a house purchase price of \$600,000, if you borrow 95 per



cent of this, Bank A will charge you 3.9 per cent of whatever you borrow as mortgage insurance. Go to Bank B and they'll charge 2.74 per cent which can result in a saving of around \$7000," he says.

"People tend to think that it doesn't matter because it gets added on to the loan but it's a significant saving so when you look at factors such as this, suddenly the interest rate isn't as strong an issue as what you might think."

Some banks, he says, will offer a 2.4 per cent discount on

mortgage insurance to first-home buyers while others will offer nothing.

Income, he says, is also treated differently. "One bank will look at a contractor's income differently in deciding whether or not to lend them money and they've all got different policies when it comes to permanent part-time and permanent casual employment," he says.

"Some are happy to take into account 100 per cent of the income, some will only look at 50 per cent and some won't

allow it into the equation at all.

"Another bank will ask for two income tax returns and then calculate 50 per cent of it in reaching a decision."

Nor, says Cooper, are these rules set in concrete.

Fixed-rate loans, he says, are another minefield.

"Some banks allow you to make reductions in principal over the term of the loan and others won't," Cooper says.

He said while mortgage brokers did not give legal advice, they might recommend clients speak to a lawyer about

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specific issues. "An example is where two mates might buy a house together, which is becoming more common. Do they buy it as joint tenants or tenants in common? If they are joint tenants, if one party dies, the property goes back to the surviving person whereas if they are tenants in common, it goes back to the person named in their will," he says.

"And there's the matter of stamp duty for Queensland properties. If you are a first-home buyer and you were to buy a house for \$600,000, your stamp duty would be \$20,025. If you were to pay \$599,999 for the house, you'd be entitled to \$1500 off that as a concession."

Cooper says settlement fees can also be negotiated.

"Some banks charge a \$100 settlement fee and others \$250 for doing the same job. As a broker, you have to think about all these things and present them to the client," he says.

"Discharge fees can also vary from \$500 to \$250 and establishment fees will vary. Some banks will consider a gift from mum and dad as legitimate savings towards a deposit while another bank will not."

"Another bank might say that you will have to put it in an account and leave it there for three months before they'll consider it and another will want a statutory declaration from the parents stating that there are no repayments attached to it," he says.

"Getting the best mortgage deal is not about tapping into a computer screen."

"That's the starting point. Then you have to drill down to see what else is there."

Using a broker, he says, ultimately disempowers banks and gives power back to the customer.

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