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news

Anger sparks bank browsing

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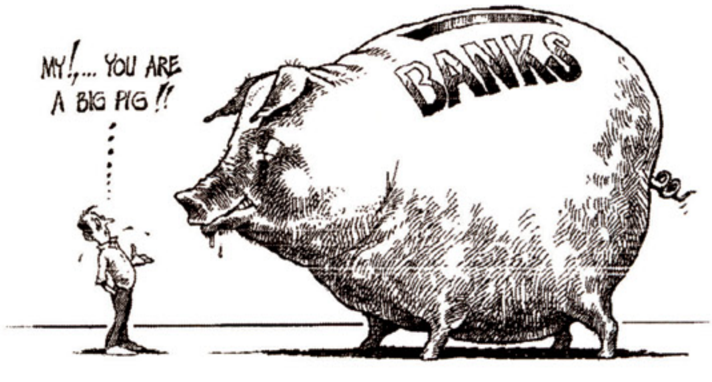

Since Melbourne Cup Day, mortgagees have been flocking to home loan comparison websites seeking a better deal.

The Reserve Bank made a Cup Day announcement of an interest rate rise of 25 basis points. Soon after, the Commonwealth Bank raised its rates by 45 basis points. Earlier this week, ANZ joined the charge, implementing a rate rise of 39 basis points.

Despite the public anger sparked by these changes, some mortgage holders feel they can't exit their current bank.

"It's not worth changing banks. There are so many fees associated with it and so much paperwork that it cuts out all the potential saving from changing to a different loan," said Alison Young, a business development manager with two mortgages.

"If the fees were cut down, it would force the banks to be more competitive and I would definitely look around more."

Prime Minister Julia Gillard said there was "no excuse" for the banks' actions in raising rates. Her government is currently planning legislation designed to reduce mortgage exit fees, making it easier for customers to make the switch.

"I've been concerned for some time that banks have been using exit fees to lock customers in, even while they raise their mortgage rates," Treasurer Wayne Swan told The Independent Weekly.

"Sometimes exit fees can be so high that they completely wipe out the savings from switching to a cheaper mortgage with another lender."

On Wednesday, the Australian Securities and Investment Commission released its guidelines on what would be considered "unconscionable fees and unfair contract terms" for residential loans. The new regulations are designed to ensure banks only cover their costs when charging people for leaving a loan early.

The same day, ANZ announced it would abolish exit fees altogether – softening the blow caused by its rate-rise announcements. At the time of going to print, Commonwealth Bank, BankSA and NAB hadn't announced any changes. Their exit fee charges range from $500 to $900.

Christopher Zinn, from consumer group CHOICE, welcomed the Government action but said banks needed to practise more self-regulation.

"We'd like to see a mandatory bank-switching package. A system where you would go to your bank, you sign one bit of paper and they will open an account for you and transfer all your direct debits into another bank," he said.

The move to restrict banks on exit fees only covers one aspect of the banking competition spectrum. Fees and charges involved with early closure of personal loans can also discourage movement between banks.

The Commonwealth Bank will penalise a customer who repays a fixed-term loan faster than expected by charging penalty rates. The penalty depends on the current interest rates, and is designed to recoup earnings the bank would have made if you had remained with them for the full term of the loan. Accordingly, the penalties can range up to hundreds of thousands of dollars for large loans.

By contrast, BankSA charges a set "loan discharge processing fee" of $150 if the loan is paid out within a year of being taken, and that drops to $100 after the first year.

While bank customers and mortgagees may find these fees and charges excessive and restrictive, economists are wary of government regulation which will increase competition.

"There's a lot of bank bashing going on, but from a wider economic point of view you can have competitive banks or stable banks, but you can't have competitive, stable banks," said Theo Marinis, director of Marinis Financial Group.

"What the GFC told us is if you have competitive banks, like they do overseas, you can get into trouble with all the price slashing and easy access loans.

"I've got a mortgage too, so every time the banks puts the interest rate up higher than the reserve it hurts me too, but I'm just a pragmatist and an economist and from where I sit I'd much rather have our banks than the overseas banks."