

Beware of the mortgage bite

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The cheapest home loan is not always the best, as Smart Money Editor ANTHONY KEANE discovers.

AUSTRALIA'S hottest home loans come from the small end of town, but people looking for a lender have been warned to make sure they are comparing apples with apples.

The interest rate you pay is just one facet of a mortgage, and a low rate may be offset by high exit fees or a lack of home loan features, financial experts say.

Smart Money asked independent research groups infochoice.com.au and CANNEX to find the best home loans on the market.

Both said it was impossible to find the best overall loans because different products suited different borrowers.

However, based purely on the interest rate paid, the lesser-known providers offered the best deals.

CANNEX put Rate Busters, Advantage Finance and Mortgage Ezy on top of their list, with advertised rates between 6.9 per cent and 6.99 per cent.

Infochoice rated BankWest, Newcastle Permanent Building Society and one direct as its top three.

Both had products by Nationwide Mortgage, Rate Busters and online providers MyRate, one direct and HomePath in their top 10.

Infochoice general manager Denis Orrock said trying to come up with a definitive top loan was a "highly subjective" exercise.

"Not every consumer's the same. Some loans are very strong in some areas and very weak in others," he said. Some loans are packed with features such as mortgage offset accounts, redraw facilities, and the ability to make extra payments.

"A loan that's high in features may cost a bit more, while cheaper loans may not have the features and may have more back-end costs," Mr Orrock said.

He also said that there was nothing standard about the standard variable rate quoted by the major banks, which is currently sitting at 8.07 per cent.

"Everyone pays probably at least 0.5 percentage points below that.

"It's a competitive marketplace. The non-banks always price cheaper, and the banks are offering discounts based on loan size."

Mr Orrock said infochoice.com.au monitored 100 lenders and the average home loan interest rate was 7.52 per cent. "The big four banks quote 8.07 per cent but some will go down to 7.37 per cent or 7.27 per cent, depending on the loan size and the customer.

"People should never take the first loan on offer as being gospel. They are in a position to negotiate. It's a highly competitive marketplace but the lenders are still making exceptionally good money.

"It's a growing marketplace in that the length of loans seems to be diminishing as people are refinancing more regularly and turning property over more regularly."

CANNEX financial analyst Michael Moran said the fact that people were moving houses more often meant borrowers had to plan ahead to avoid being stung by high exit fees.

Mr Moran said exit fees usually disappeared after five years, but before then people could face penalties of up to \$5000.

"The thing to look out for with these low rate products is the exit fees. We are seeing that the lower the rate, the higher the probability that it has an exit fee attached.

"The average person refinances these days within four or five years."

Mr Moran said most comparison interest rates did not capture exit penalties, establishment fees and redraw fees.

"It's really a matter of identifying not just the rate, but planning ahead and understanding the features attached to it and how you can benefit," he said.

There was nothing wrong with basic home loans and the features they offered, he said, adding that those looking for extra features could be paying up to 0.4 percentage points more.

"There's no point in paying for features that you don't need."

For example, more than 90 per cent of people who had a mortgage offset account did not get benefits equal to the extra cost of having one.

"The interest you are going to incur to offset that fee difference means you will need to maintain a balance of about \$12,000 in that account," Mr Moran said.

"The best loan for one person is not the best for another."