

Business Day

Weigh the pros and cons

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You may be better off with a simpler home loan and avoid expensive bells and whistles.

Home loan borrowers are enthusiastically taking up "professional" packages but consumer advocates say people should think twice about paying \$400 a year for interest rate discounts and other benefits they could in effect get for free elsewhere.

Professional packages were introduced in the 1990s as a way to attract - and maximise business with - high-value customers such as doctors and lawyers.

At first the big banks used interest rate discounts to attract these profitable customers. As competition increased, they added other bells and whistles such as offset accounts and redraw facilities. Next they began to widen access to other customers, so that "professional" packages are now available to almost anyone - so long as you're borrowing at least \$150,000 and happy to commit to a credit card and transaction account with the same lender.

These days packaged benefits include waived loan application fees, reduced or no fees on transaction and credit card accounts, lower premiums on certain insurance products, bonus interest on term deposits, favourable terms on margin loans and discounts if you visit one of the bank's financial planners.

PROFESSIONAL PACKAGE LOANS COMPARED

Loan package	Total amount*
DIY Pack using My Rate	\$554,622
AMP Prof pack	\$561,963
Suncorp MM - My Home Pack	\$569,338
Citibank Mortgage Plus	\$570,226
BankWest Plus Package	\$570,358
St George Prof Benefits	\$571,338
Westpac Premier Advantage	\$571,838
HSBC Power Vantage	\$575,359
ANZ Breakfree Package	\$575,392
National Choice Package	\$581,208
CBA Wealth Package	\$584,297
Bank of Qld Privileges Pack	\$586,172

*INCLUDES ANNUAL FEE PAID FROM SEPARATE FUNDS, RATHER THAN CAPITALISED
BASED ON A \$250K LOAN OVER A 25-YEAR TERM
THE DIY PACK ALSO CAME OUT ON TOP IN SCENARIOS USING \$150K, \$500K & \$750K LOANS

SOURCE: INFOCHOICE

Banks argue that consumers see the value in the packages, which come with interest rates as much as 0.7 percentage points lower than the standard variable rate, which is why there has been such a high take-up rate.

National Australia Bank told Money earlier this year that more than 60 per cent of all its home lending was now through its Choice package.

Warren O'Rourke, the national manager of corporate affairs at broker Mortgage Choice, says packages are "very, very popular", accounting for about a third of the loans its brokers arrange. They are more popular than basic standard variable home loans without the bells and whistles, he says.

However, some argue that if you don't need the extras or the deal ties you to a high-rate credit card, you're probably better off shopping around for a loan that has a low interest rate without the three-figure annual fee.

"For some people who earn a lot of money, the package product can make sense if they use it the right way," says Denis Orrock of researcher InfoChoice. And cost aside, it can be convenient to have your accounts linked in this way, he says.

However, many people would be better off forgoing the package and applying the \$300 to \$400 a year they would have paid as an annual fee to extra repayments on a basic loan, many of which now have redraw or offset facilities anyway.

According to analysis by InfoChoice, a borrower could come up with a do-it-yourself package of a \$250,000 home loan, transaction account and credit card and be many thousands of dollars better off over the life of the loan, compared to the professional packages from major lenders (see table below).

DO-IT-YOURSELF PACK				
COMBINING HOME LOAN, CREDIT CARD & TRANSACTION ACCOUNT				
	Institution	Product	Rate	Notes
Home loan	MyRate	Advantage Loan	7.44	No fees with product.*
Credit Card	Mecu	Low Rate Visa	8.49	Annual fee is \$59
Trans Acc	Members Equity Bank	InterestME Sav. Acc.	0.25	No acct-keeping fees.^

*RATE 7.34% IF LOAN GREATER THAN \$600,000 ^RATE RISES TO 6.25% IF BALANCE \$3000+

InfoChoice compared its DIY package with professional packages from other lenders, using a \$250,000 loan. Over the 25-year term, the borrower would pay between \$7341 and \$31,550 more using the professional packages.

Some lenders debit the package's annual fee to the loan's attached credit card, where it accrues interest at a much higher rate. Ask how the fee will be charged and whether you can pay it separately, Orrock says.

He says borrowers should be wary when lenders talk of a "discount" on the standard variable rate, at present 8.32 per cent. That's because hardly anybody pays the standard variable rate these days - the market average is more like 7.8 per cent. If the bank reckons your discount will be 0.7 percentage points from the standard variable rate, for a rate of 7.62 per cent, that's not much of a discount from the average of 7.78 per cent, he says. In fact, the difference on a \$250,000 loan is precisely \$400 - so the annual fee will wipe out what little interest rate benefit there is. As for other benefits, Orrock says people start off with best intentions of using the package arrangement to "sweep" excess money from the transaction account into their mortgage but often don't follow through.

Lisa Montgomery, the head of consumer advocacy with mortgage specialist Resi, says finding a package that combined the best interest rate, best credit card and best transaction account would be "like finding gold". "I think a lot of people are under the misapprehension that they're getting something special," she says.

"What people hear when they're taking out the loan is 'you're getting a special deal' and they don't hear the \$400 fee bit."

Resi research shows that, for home loans generally, a proportion of people don't know what rate they're on and an even larger proportion don't know what fees they're paying, she says.

"You're better to shop around for a low-rate loan, a low-rate credit card and a good transaction account that's going to meet your needs," Montgomery says.

She says borrowers should assess loans on the basis of five key elements: low interest, low or no fees, flexibility, useful features and customer service.