

The Australian



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Borrowers' apathy costs them \$6.1bn

- Richard Gluyas
- From: **The Australian**
- October 27, 2009 12:00AM

APATHY is mostly to blame for customers of the big four banks missing out on \$6.1 billion in annual savings that can be achieved by switching their home loans and other borrowings to the cheapest providers.

Financial comparison firm Infochoice yesterday released its first quarterly cost-of-banking research report, which showed big-four customers could save \$5.3bn on their home loans, \$275million on credit cards and \$482m on other financial lending, including car loans.

By taking their business elsewhere, they could save \$4300, or 20 per cent, cutting their annual banking costs from \$21,500 to \$17,200.

"The real anomaly is that, while the four major banks offer increasingly less competitive products, they continue to increase their market share," Infochoice chief executive Shaun Cornelius said.

Takeovers of BankWest and St George Bank, by Commonwealth Bank and Westpac respectively, along with severe funding pressures in the non-bank sector, have enabled the big four to snatch more than 90 per cent of new mortgage flows.

However, Mr Cornelius said the major banks were far more expensive than their smaller rivals when it came to the complete cost of banking, including service and transaction fees, ATM fees and interest rates.

This was despite access to cheaper and more diverse sources of funding, for example, the lower fee to use the federal government's wholesale funding guarantee, because of their higher AA credit ratings.

Mr Cornelius said mortgage customers could save \$3186 a year in interest payments and fees by switching from the 5.78 per cent average variable rate for the four majors to the 4.92 per cent average rate for the lowest four mortgage facilities in the market.

Those loans were provided by non-bank lenders State Custodians, Ratebusters, MyRate and HomeStart.

Assuming an average home loan of \$300,000 paid over 30 years, the total savings over the life of the loan from switching to

the lowest average rate would be almost \$58,000.

Mr Cornelius said there was no rational reason, apart from apathy, for customers to stay with a big-four bank and not seek a cheaper rate.

"The majors have trusted brands and there's been a flight to perceived quality in the financial crisis, but Australia has always had a strong banking system, and the guarantee is in place," he said.

Mr Cornelius said there were costs involved in switching, and in some cases, particularly where customers were switching out of fixed-rate products, they were relatively high, between \$2000 and \$3000.

But mostly they were below \$1000.

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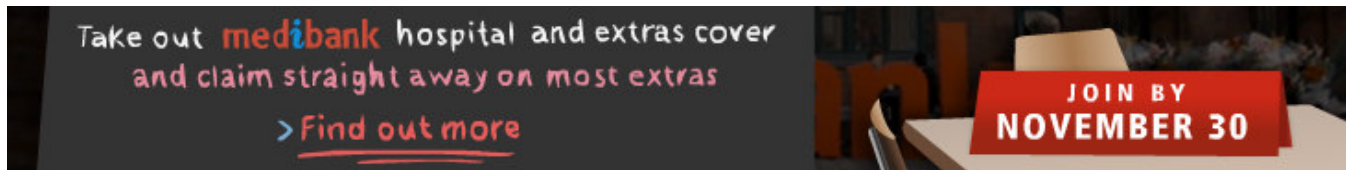
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