Amy Mylius says she reviews her rates every six months. PHOTO: ARSINEH HOUSPIAN

Why it's worth finding a cheaper mortgage

Loan savvy Official rates may be unchanged but lenders are increasing their rates, writes **Duncan Hughes.**

Amy Mylius has saved more than $1000 a month in loan costs on her two investment properties by switching to a new lender after her repayments crept up by more than 100 basis points in 12 months.

Mylius, from the inner Melbourne suburb of Fitzroy, watched her rates slowly rising to more than 5 per cent as ANZ discreetly pushed up costs for interest-only investors in response to rising funding and compliance costs, despite record low cash rates.

Mylius, who is also paying off her home, says when monthly costs on investment loans for her townhouse and apartment rose by $1300 a month she decided to refinance.

Mylius says: "The lending environment is changing so quickly. You need to watch rate movements and shop around for the best deal. I review my rates every six months."

The big four banks, which account for about 70 per cent of loans, have increased their rates on average for interest-only investors by 54 basis points during the past 18 months since regulators imposed caps on lending to cool overheating markets, says research house and comparison site Canstar.

Other lenders have increased rates by between 20 and 27 basis points, its analysis shows.

Lenders are also increasing fees or raising rates for existing borrowers to subsidise new borrower's cheaper rates.

Mortgage providers are under intense pressure from regulators and the banking royal commission to ensure borrowers have adequate income to comfortably afford repayments for the term of the loan.

That means they are demanding more details about borrowers' income and spending, with banks like Westpac more than doubling the detailed categories of questioning from six to 13.

Some lenders, particularly relying on overseas funding to finance their loans, face increased borrowing costs thanks to higher US interest rates. The short-term money market benchmark interest rate, or Bank Bill Swap Rate, has been rising sharply since January, increasing funding pressures despite the Reserve Bank of Australia maintaining cash rates at 1.5 per cent.

For example, ME Bank, owned by 29 industry super funds, recently raised rates for existing property borrowers by up to 16 basis points in response to rising funding and compliance costs.

Mylius says variable rates on her two properties had "gradually" crept up.

MyState Bank, the listed finance group, has introduced a $300 establishment fee for its basic variable residential investment loan.

According to comparison site Mozo, effective rates have increased for more than 40 per cent of borrowers in the past 20 months as lenders raise rates or borrowers fail to switch to cheaper alternatives.

Many borrowers are paying rates above 4 per cent despite benchmark principal and interest rates being under 3.7 per cent, its analysis shows.

As you can see in the accompanying table, in some cases the comparison rate (which takes into account fees and charges to give a more accurate idea of the loan's real interest rate) is lower than the advertised or headline rate.

This happens when the variable rate includes a discount.

Kirsty Lamont, Mozo director, says lenders are offering their best deals for buyers with big deposits and steady incomes and relying on the inertia of existing borrowers not to compare rates and switch.

Westpac Group, which includes St George Bank, Bank of Melbourne and BankSA, is launching a limited offer 3.68 per cent loan for first-time, owner-occupier homebuyers with principal and interest repayments. But lenders are "throttling back" on many borrowers seeking refinancing who don't meet their tough new income standards, or whose rising household expenses might make it more difficult to keep up with repayments.

Martin North, principal of Digital Finance Analytics, says the number of troubled households seeking to refinance has more than doubled from 15 per cent to more than 30 per cent in the past 12 months.

There are estimated to be 550,000 households seeking to refinance over the next three years as fixed loan terms expire or borrowers seek better terms and conditions, DFA's analysis shows.

The Reserve Bank of Australia is warning its next rate move will be up after keeping rates on hold for a record 21 months in a row.

But Shane Oliver, head of investment strategy with AMP Capital, does not expect any increase until 2020, adding "the next move being a cut cannot be ruled out".

The possibility of a rate cut is being raised because house prices are slowing with more weakness likely, tighter lending standards are easing nascent inflationary pressure and growth is likely to remain below RBA expectations.

But investors like Mylius, a buyers' agent with Cate Bakos Property, says unofficial rate increases make it imperative to review mortgage costs.

Mylius says variable rates on her two ANZ investment properties had "gradually" crept up from below 4 per cent to about 4.9 per cent on one and more than 5 per cent on the other.

"Last month I called my mortgage broker to find out my options," she says.

She initially switched to an ANZ two-year fixed principal-and-interest loan at 3.88 per cent.

This week she refinanced with CBA at 4.29 per cent on a three-year interest-only fixed rate. ANZ did not charge a fixed term break fee.

"The $1000 savings a month [via paying no principal] will go into my offset account against my owner-occupier loan, which is more tax effective," she says.

Top 5 mortgages for a $500,000 home loan*

Standard variable investment loans

Institution	Product	Interest	AAPR	Upfront fees	Ongoing fees
Homestar Finance	Investment P&I 150-749k 70%	3.74%	3.75%	$639	Nil
Freedom Lend	Investment Freedom PI 500k+ 80%	3.74%	3.77%	$580	Nil
Pacific Mortgage Group	Investment P&I	3.79%	3.79%	-	Nil
TicToc Home Loans	Variable Invest P&I	3.79%	3.80%	-	Nil
Reduce Home Loans	Inv Rate Buster 100% Offset	3.89%	3.87%	$900	Nil

Three-year fixed loans

Institution	Product	Interest	AAPR	Upfront fees	Ongoing fees
Homestar Finance	Owner Occupied P&I	3.94%	3.60%	$639	Nil
Pacific Mortgage Group	Residential P&I	3.82%	3.62%	-	Nil
TicToc Home Loans	Live-in	4.32%	3.73%	-	Nil
Aussie	IQ Basic PI 70%	4.09%	3.79%	$363	Nil
AMO Group	Residential	3.92%	3.84%	$1,180	$120pa

*Rates correct as at May 1. The search results do not include all home loan providers, and may not include all features relevant to you. AAPR: Average Annual Percentage Rate; actual rate of loan including interest rates, fees and other costs. WWW.CANSTAR.COM.AU

Get clued-up on your apartment block, or you'll pay

Flat chat

Jimmy Thomson

Do you have any idea what's going on in your apartment block? Does every change come as a shock, quickly followed by a range of emotions, just like the five stages of grief – denial, anger, bargaining, depression and acceptance.

When you're told there's going to be a special levy or the pool is going to be closed all summer, it's the five stages of strata confusion: When was this decided? How can I stop this? Who do I blame? Why is this happening? And, finally, where do I pay?

Take the couple who ignored strata committee notices – until they couldn't get their car out because the driveway was being excavated, something they'd been warned about for weeks.

So are you ever completely surprised by a decision your committee makes? And how often do you think "well, no one asked me"?

Granted, the last thing you want is to come home from slaving over a hot computer to agendas and minutes, spreadsheets and fact sheets that are all about things going on in your building that you really, really don't care about – until you do.

Seriously, when was the last time you actually read the minutes from your strata committee?

Have you ever looked at the agenda for the next confab and thought: "Hey, I'm going to exercise my legal rights and attend this meeting – even if I can't speak"?

At least you'd be able to find out who's making decisions about your home or investment and how they are reaching these often strange conclusions. (You can only speak at the meeting with the committee's permission, and if you want to raise something, it's got to be on the agenda.)

Can you bear to drag yourself along to the AGM? It's only once a year and not only can you speak, you get to vote for the members of the committee ... or not.

Even if you don't go, do you read the agenda and think about giving your proxy to that bloke you bump into in the lift who seems to know what's going on?

Do you read the AGM minutes and flick through the financial report pages and dream of finding a couple of hundred thousand dollars that the octogenarian treasurer misplaced when he reluctantly converted to a spreadsheet from a double-entry ledger? Have you even read your building's by-laws or rules? Or do you just depend on that bloke from sales who lives in a totally different building but assures you all by-laws are the same.

FYI, they're not. That bloke from sales is an idiot.

You have to pay attention, unless you you are one of those lucky people who can go with the flow and decide that if the hairdressers on the committee want a mirrorball in the lobby, they must have a good reason.

So go to at least one committee meeting this year and definitely turn up for the AGM. Or get ready for the five stages of strata confusion, quickly followed by the five stages of grief.

Jimmy Thomson edits the strata living advice website flat-chat.com.au. States have different strata laws.