

What should mortgage holders do, when their mortgage holiday ends?

More borrowers to seek mortgage help as COVID-19 continues to bite

In March this year, just as the COVID-19 pandemic began to wreak havoc in Australia, Australia's banks announced they would give eligible mortgage holders a six month repayment holiday.

In unison with the Federal Government and Reserve Bank of Australia (RBA), the banks were determined to help mortgagees navigate through the financial hardship they were plunged into and see them through the other side.

It is now six months later and time to reassess repayment arrangements.

"It will be difficult for some mortgage holders to resume full principal and interest repayments at this time," said Vadim Taube CEO of one of Australia's leading financial comparison sites InfoChoice.com.au.

"According to the ABS unemployment is at 7.5 per cent and likely to continue to rise. Meanwhile, JobKeeper payments are set to be slashed, which will put further stress on people who have lost their income during this time."

Taube says many of the banks will still be willing to help, it is just a matter of speaking with them and coming up with a plan.

ANZ Bank has already flagged its intention to better deal with customers in financial stress. Just this week, the bank announced it will increase staff numbers and training to deal with financial stress "at scale".

"Sadly, we know that there will be difficult situations where we need to help customers wind up their debt. And when this happens, we will be ethical and sensitive in our actions," ANZ Bank chief executive Shayne Elliott said.

The bank will also be assessing its lending criteria and is considering imposing LVR limits on certain postcodes. According to ANZ's head of retail and commercial banking in Australia, Mark Hand, it is likely ANZ will only lend 80% of the property value in some postcodes where prices are likely to drop and only 70 per cent of the value for luxury properties. He recently told the Financial Review that certain Melbourne suburbs will come under greater scrutiny.

However, one thing working in mortgagees' favour at the moment are the record low interest rates.

The cash rate set by the RBA is currently 0.25 per cent.

"Low interest rates will help bank customers get back on their feet," Taube says.

"Just this week, Greater Bank became one of a number of Australian lenders to offer a mortgage rate below 2 per cent. These types of low interest

rate will make it easier for home loan customers to either renegotiate with their existing lender or refinance elsewhere.”

The Newcastle-based Greater Bank has reduced its one-year fixed interest rate by 0.10 per cent to 1.99 per cent (3.74% comparison rate) for principal and interest (P&I) home loans.

It follows last week’s move by online lender Reduce Home Loans, which is now offering a one-year introductory variable rate of 1.9 per cent (2.39% comparison rate) for owner occupiers.

Westpac is currently offering \$2000 cash back for any property refinanced with them. It is a fast tracked refinance option on their Premier Advantage Package and Flexi First Option loans. A \$250K,000 minimum loan per property is required and a \$395 annual package fee does apply.

NAB is also offering \$2000 cash back to refinance with them and Bank of Melbourne has a \$3000 cashback refinance offer on the table.

Taube says now is the perfect time for people to shop around and compare their home loans.

“If you are yet to compare your home loan and find a better deal, you could be leaving crucial savings, if not thousands of dollars, on the table. This is not the time to sit idle and forget about your mortgage, especially if you are suffering from financial stress. Now is the time to find the best deal available to you through comparison sites such as InfoChoice.

“The banks want your business. The number of cashback offers is a major enticement by them to lure you from your current provider. However, the lure of instant money back, shouldn’t be the only thing that sways your decision to refinance. Borrowers should weigh up the interest rates, with cash back offers and the overall cost of the product. The worst thing any borrower could do at the moment is put themselves in a worse financial position because they haven’t read the fine print. Start comparing everything from interest rates to fees and special offers and choose a loan that can put money back in your pocket.

The lowest advertised home loan rates* currently listed by InfoChoice.com.au are:

Variable rate: 1.99 per cent p.a. (comparison rate 2.47 per cent p.a.) from loans.com.au for its Smart Booster Discount Variable – 1 year variable loan.

Fixed rate: 1.79 per cent p.a. (comparison rate 3.10 per cent p.a.) for three years from Bank Australia for its Clean Energy Home Loan LVR<70% Fixed Rate Home Loan.

Given current circumstances especially in Victoria where people are still in lockdown, it would pay to speak with your bank.

“Low interest rates will help many borrowers,” Taube says. “However, it is important to speak with your bank as soon as you know you will face hardship. The banks will still do everything they can to help you, including potentially lowering your interest rates, allowing you to pay interest only for a year, or by putting you on a payment plan for a certain period of time.

“Seek help as soon as you can to mitigate any negative impact of the repayment holiday ending,” he says.

*The comparison rate is based on a secured loan of \$150,000 and a term of 25 years. WARNING: These comparison rates apply only to the example or examples given. Different amounts and terms will result in different comparison rates. Costs such as redraw fees or early repayment fees, and costs savings such as fee waivers, are not included in the comparison rate but may influence the cost of the loan.

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