



Make equity work for you

Homeowners hit by falling house prices should use their most valuable asset to renegotiate a more favourable mortgage deal, writes **Niall Brady**

THE equity in Irish homes is under serious threat. The value of houses sold have dropped 5% since January, according to the Permanent TSB house price index, but the impact on homeowners' equity is more dramatic.

A house worth €350,000 with a mortgage of €290,000 means the owner has equity of €60,000. If the property value slips by 5%, or €17,500, this represents a 29% drop in equity.

Dermot O'Leary, chief economist at Goodbody Stockbrokers, says up to 35,000 people could be facing negative equity — owing more than their homes are worth — by the end of 2008 if, as Goodbody predicts, house prices have slid back to 2005 levels by then. The squeeze on equity, as house prices fall faster than mortgage debts, means banks have become more cautious. Most have stopped giving 100% mortgages, except to public servants with guaranteed jobs for life or high-flying professionals with good earnings prospects.

The erosion of equity is a bitter blow to those who viewed their homes as their most precious asset. Many hoped their home would be their pension, with equity-release schemes unlocking the value in the property to provide an income in retirement.

Research from Bank of Ireland Life has found 76% of those in their thirties and forties believe being mortgage-free is a sign of wealth. This underlines the importance they attach to growing the equity in their homes, according to Ken McKenzie, social psychologist with the Geary Institute in University College Dublin, who compiled the research. He believes property swings can affect people's sense of wellbeing, especially when they are trapped in negative equity.

"They blame themselves for buying at the wrong time," said McKenzie. "They lose confidence in their ability to make good judg-

ments, making them more risk-averse."

The property slowdown will have ripple effects in other areas, according to Michael Dowling, president of the Independent Mortgage Advisers Federation. "The family home is the only significant asset for most people, and they tap into its value for various reasons — for home improvements, to help children get a start on the property ladder or to buy a holiday home abroad," he said.

"As the value of their equity falls, people's ability to leverage it for other purposes is diminished. It makes them think twice about whether they should be buying holiday homes, and activity in this area is being severely curtailed."

Ronnie O'Toole, chief economist at National Irish Bank (NIB), says that the people facing the greatest erosion in their equity are those who bought their homes since 2000, as in seven years they have made little difference to the level of debt of their home loan.

"In the early years of a mortgage, your payments make less of a dent in the amount owed because most of the money goes to pay interest," he said.

"In older mortgages, most of the money is used to repay capital, so the chances are the mortgage is falling faster than house prices. Those who bought before 2000, therefore, are probably still increasing their equity, even as prices fall. Those who bought in the last two to three years, though, are seeing a noticeable decrease in their equity."

Seek a new deal

Mortgage experts urge homeowners to make use of the equity left in their homes to negotiate a better mortgage deal before prices drop even further.

Bank of Ireland has a new offer for those whose mortgages are worth less than half the value of their homes, known in the industry as a loan-to-value (LTV) of less than 50%. They can get a mortgage that tracks the European Central Bank (ECB) by a margin of 0.65 percentage points by switching to Bank of Ireland before the end of March.

Other lenders, though, have

even better offers: NIB has a tracker rate of ECB plus 0.5 points for those with an LTV of 50% or less; Bank of Scotland offers ECB plus 0.55 points; AIB charges ECB plus 0.6 points.

Borrowers are guaranteed to remain on these rates, even if the equity in the homes keeps falling. "With an LTV offer, you're locked into the rate for life," said O'Toole. "If you believe house prices have further to fall, you should get an LTV mortgage now. If your LTV rises above 50% in the future, you'll still remain on NIB's rate of ECB plus 0.5 points."

The catch is that it is increasingly difficult to qualify for the best LTV deals. "As house values drop, the numbers qualifying for the really low LTV mortgages, those tracking ECB by 0.5% to 0.75%, are dropping, too," said Liam Ferguson of Ferguson & Associates, a mortgage broker.

Those calculating the amount of equity left in their homes should not base the maths on the prices they see for similar properties in auctioneers' windows, according to Ferguson.

"If your neighbour's house is on the market for €400,000, it doesn't mean lenders will accept your house is also worth that if you are looking for an LTV mortgage," he said. "Auctioneers have to be optimistic to convince people to put their houses up for sale in the current market. Valuations for loan purposes, though, tend to be much more conservative."

Increase payments

With house prices stalled, the only other way for homeowners on a variable rate to build equity is to pay off their mortgages more quickly.

The normal payments on a €300,000 loan would be €1,703 a month, assuming an interest rate of 5.5% and a 30-year term. Adding an extra €250 a month to the payment would save €93,300 in interest and knock seven years and nine months from the life of the mortgage.

Frank Conway, the marketing manager at Irish Mortgage Corporation, a broker, said: "The first step to boost equity in your home

is to refinance at a lower rate of interest. The next is to pay it off as quickly as possible by increasing the payments by what you can reasonably afford. This is one of the most useful mortgage tricks that most people are not aware of."

IIB Homeloans is especially flexible because it allows those who step up their mortgage payments to take back the amount they have overpaid if they need the money in the future. "It's the only lender that openly advertises a redraw facility with no strings attached," said Ferguson. "The only way to get overpayments back from some other lenders is to top up the mortgage, which means you have to go through the whole process of proving that you can afford the higher loan."

Look around, landlords

Buy-to-let investors have the most to gain by refinancing their mortgages because many are paying over the odds. Research by EBS building society and Gunne Residential, an estate agent, found that almost 50% of investors would consider selling some of their properties because of rising mortgages rates. Only half of investors, though, said they had

shopped around for a better mortgage deal.

"Some lenders — Permanent TSB, Bank of Scotland, IIB, EBS — are chasing professional investors," said Dowling. "They'll lend up to 75% of the value of their portfolios at competitive rates. Permanent TSB has a buy-to-let mortgage that tracks ECB by 0.75% for amounts over €500,000."

The clampdown on 100% mortgages means that most first-time buyers are obliged to have equity — at least 5% of the purchase price — before they can get on the property ladder.

Even those lenders still prepared to give 100% mortgages to the mass market — Bank of Scotland, Permanent TSB and Halifax — have imposed strict conditions. "They won't give 100% loans to those buying apartments, irrespective of how much they earn or how secure their employment," said Dowling. "They're worried that apartments will be hit hardest by falling prices."

The disappearance of 100% mortgages will force more first-time buyers to seek help from parents. "We are also likely to see more people taking advantage of the rent-a-room scheme."

Under this, homeowners can earn up to €7,620 a year tax-free by renting a spare room, boosting the amount that they can borrow.

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Bryan Meade

There's no place like home: Cox wants to make the most of his equity, but he believes it is important to remember that a property is not just an investment, it's a home for him and his family