

## The ECB says it will continue to increase interest rates until inflation is tamed.

Burgess(2022) outlines clearly the situation for Irish mortgage holders, whether you're on a tracker or variable rate mortgage; he strongly supports fixing your mortgage rate as the prudent action in the current climate of rate hikes:

It's an uncertain time for mortgage holders. European Central Bank rates have jumped from zero to 2 per cent in just four months. A borrower on a tracker of ECB plus 1 per cent (a margin of 1 per cent over the ECB base rate) will have seen their interest rate rise from 1 per cent to 3 per cent. If they have a mortgage with a balance of €200,000 remaining, they will pay an additional €4,000 a year in interest.

And the ECB is saying it will continue increasing mortgage rates until they tame inflation. So what should a borrower with a tracker mortgage do?

If they fix their mortgage rate now, they will lose their tracker when the fixed rate is up. There is a general impression out there that "you should never give up your tracker". But that is not always correct. As a general rule, if you have a cheap tracker — less than 1 per cent margin over ECB — and if you have more than 10 years remaining on your loan, you should probably hold on to your tracker.

But if you have a tracker of ECB plus 2 per cent, then it's worth very little and you should probably fix the rate for 5 years. Even if you have a tracker with a very low margin but you have fewer than 10 years left, then you probably should fix for five years. After the fixed rate is up, you may well pay a higher rate than you would otherwise have paid, but it will be on a much smaller balance and it will be for the very short period remaining on your mortgage.

And what should someone on a variable-rate mortgage do? This is a much clearer decision. The Irish mortgage market has been dysfunctional for many years. While fixed rates in Ireland have been much higher than they have been in the rest of the euro zone, variable rates have been and continue to be even higher for most banks. A variable-rate customer with a loan-to-value ratio of less than 80 per cent is paying 2.95 per cent to AIB, 3.85 per cent to Permanent TSB and a huge 4.2 per cent to Bank of Ireland. The five-year fixed rate for all three lenders is about 3 per cent.

A customer with a variable rate today should fix immediately. They should not delay, as it's likely that fixed rates will rise in the short term. In most cases, they will get a reduction on the rate they are paying and, in all cases, they will get protection against increases for the next five years.

Take a Bank of Ireland customer who is on a variable rate of 4.2 per cent. If they do nothing, they could well face an increase in this rate. But they could reduce this rate today to 3 per cent by fixing for five years. For someone with a mortgage of €200,000, that is a saving of €2,400 a year in interest, and protection against further increases for the next five years.

Even customers who are on a fixed rate at the moment should review their options. They do not have to wait until the scheduled end of the fixed-rate period. They can break out early and refix at current rates. They might face an early repayment fee for breaking their fixed rate early, but this should be very low.

Burgess(2022)

However, according to Burgess(2022), the situation is not so straightforward for those mortgage holders whose loans were sold, at the behest of the Central Bank and Government, to vulture funds:

### **Vulture funds**

But spare a thought for the former customers of the main banks whose mortgages were sold to vulture funds because they were in arrears or had been restructured.

The Central Bank of Ireland and Minister for Finance Paschal Donohoe reassured those customers that their terms and conditions would not be affected by the sale. And in a strict legal sense, this is correct. But the terms and conditions allow the lender to charge whatever interest rate they wish. And some of the customers of vulture funds have been recently notified that their variable rates have increased to 4.9 per cent. Others have reported that they have been notified of an increase to 5.45 per cent.

And when they inquire about fixing their rate, they are told that their lenders don't offer the option of fixed rates. If their mortgages had not been sold, they would be able to fix at 3 per cent. Most of these customers have an impaired credit record so they can't switch to a new lender. The rate increases will just exacerbate the arrears problem and make it more difficult for them to get back on track.

The Central Bank forced the lenders to sell their so-called bad loans. You might well ask why neither they nor the Government took any steps to protect these mortgage holders from arbitrary mortgage rate increases. The vultures have truly come home to roost.

Burgess(2022)

### **References**

Burgess, B. (2022) 'Fixed, tracker or variable: What should borrowers do?', *Irish Times*, 31 October. Available at : <https://www.irishtimes.com/business/2022/10/31/all-you-need-to-know-about-mortgage-options-as-interest-rates-continue-rising/> . (Accessed 31 October 2022).