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Press release from Integer

Be a 'rate tart' and save on your bond

SA's home owners might have to become 'rate tarts' – a term coined in the UK for consumers who constantly chase better deals from lenders – in order to limit the pinch of rising interest rates.

"As interest rates continue to soar, home buyers will have to negotiate more aggressively with lenders. Given the current economic climate, South Africans need to develop a culture of bargaining and hunt for better deals. There are clear signs that demand for property has dwindled, therefore lenders might be more willing to bargain – something they have been extremely reluctant to do in the past, says Simon Stockley, CEO of Integer.

"Amid soaring food and fuel prices, clinching a good deal on a home loan could offer homeowners some relief. Although lenders offer various incentives such as household insurance it is the interest rate that consumers should be interested in."

Traditionally South African banks have had a tendency not compete on price and have never advertised their lending rate. A borrower has been expected to negotiate a discount to the quoted lending rate (prime) and these discounts have, by and large, remained secretive and have been dealt by lenders on an ad hoc basis. Shrinking margins and activity in the property sector may well change all of this and Stockley sees a new era where banks may well now actively advertise and compete on price. In this way, they will potentially erode each others' market share.

Another significant development is the emergence of a 'cancellation or defend rate'. This occurs where an existing client of a bank threatens to cancel their mortgage and move to another lender, prompting the defend or cancelling department of the bank to offer a further rate concession to the irate client in order to prevent them switching. In order to take advantage of this new phenomenon, Stockley encourages customers to actively engage with their existing lenders and to discuss with them the possibility of switching their mortgage in order to extract maximum leverage.

"Although there are costs involved when moving your mortgage from one lender to another, (generally around one percent of the value of the loan) these can be covered by the equity available in the new home loan and these are , as a rule of thumb, recovered within 18 months of making the switch, " adds Stockley.

In the past 20 months, the Reserve Bank has raised interest rates by 350 basis points. This means if you bought a house for R500 000 in July 2006 when rates were at 11.5%, you would have been paying R5 332 a month.

Home loan lenders raised their rates to 15% after the Reserve Bank pushed interest rates by 5 basis to 15% in April 2008. A R500 000 home loan will now fetch R 6 583 a month, and this implies a 23% increase in his repayment amount since July 2006.

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