

**10 June 2008**

## **Press release from Integer**

### **Double whammy for consumers as banks price up and reduce exposure**

Consumers are getting a double raw deal from banks. Not only is another interest rate rise on the cards, but banks are reducing the discount on the prime lending rate at which they offer home loans to customers.

This is in response to a tighter liquidity in financial markets globally, while simultaneously tightening lending criteria in response to increased concerns around borrowers' ability to repay and service debt.

Simon Stockley, CEO of home loan provider Integer, explains that it is becoming more expensive to raise capital in response to the global credit crunch and as a result local banks have to pay more to attract liquidity. "Now they want to pass the increased cost of sourcing cash to South African customers. This combination in South Africa of raising interest rates and tightening financial liquidity is creating a near 'perfect storm' in the housing market, with hard-pressed consumers being the major casualty".

These factors make the Governor of the Reserve Bank's recent announcement regarding increases to the repo rate 'difficult to understand' says Stockley. "At a time where central banks in other jurisdictions - like the UK and USA - are proactively taking steps to support and stimulate the property sector, our regulator appears to be excessively preoccupied with inflation targeting at the expense of growth in the economy".

"The discounts to prime simply aren't there anymore. Banks are not going to be as aggressive about offering discounts as they may have been in the past. You are not going to be offered prime -2% in the current environment. Increasingly, we are seeing smaller and smaller discounts with the new maximum discount to clients, outside of the privately banked sector, at around prime minus 1.5%".

While you may expect this to be the last of the consumers woes, ABSA and FNB have recently implemented changes to their credit policy that requires borrowers to have a deposit of at least 5% of the value of the property in order to secure a loan, making it even more difficult for new entrants without a deposit to gain a foothold on the property ladder. Now, more than ever, it has become important for consumers to shop around and see if they can get a better deal and it is imperative that consumers negotiate with lenders before committing to a home loan or re-finance option.

Shopping around does work and consumers should always seek professional advice when applying for a home loan. As there is no real competition in the banking sector, banks have been able to exploit their dominance of the home loan market and offer customers the worst interest rate when they first apply for a home loan. It's only when you question and come back with a rival offer that the banks will generally match or reduce their rate. So, shop around for the best rate and never accept the first rate a bank puts on the table.

According to Stockley "It is no longer simply a question of a better interest rate on your home loan, but a better deal that offers control over monthly repayments and allows you to be bond-free years sooner".

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