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saving on home loan fees

Many of our big banks are to be applauded for the decisions to remove or reduce many of the fees and charges applicable to everyday transaction accounts. However that's not to say that consumers should let their guard down. There are still plenty of other fees to be mindful of, especially when it comes to home loans.

Mention the words 'bank charges', and many of us think of the fees attached to everyday transaction accounts. But home loans have fees too – and their take is growing.

Reserve Bank figures show that over the last year, bank fee income from home loans grew by 17%. That compares to fee income from savings and transaction accounts which grew by just 3%.

Now this isn't to say that fees on mortgages rose by 17% - part of the jump may have come from increased sales of mortgages. But the message for borrowers is clear: when you're shopping for a home loan, don't just look at the interest rate – check out the fees as well.

Fees on home loans come in two main varieties – upfront fees and regular monthly fees. If you're in the market for a home loan, it pays to look at the comparison rate as this includes these upfront and ongoing fees, giving a truer picture of the cost of the loan.

To see just how useful the comparison rate can be, a quick look at www.infochoice.com.au shows that one of the cheaper home loans is available through Mortgage House, which charges a headline (before fees) rate of 6.49%. By contrast, another lender, ING DIRECT charges 6.74% on its Mortgage Simplifier home loan.

However the tables are turned if we look at the comparison rate. According to InfoChoice, the comparison rate on the Mortgage House loan is 6.86% compared to 6.74% on the ING DIRECT loan (assuming a loan of \$150,000 payable over 25 years).

I'm not plugging one lender over another, but it's worth noting that a low rate home loan can come laden with fees. So do look at the comparison rate.

Another way to keep a lid on fees is by paying the lender's valuation, application or legal charges upfront. Some lenders let you capitalise these costs, meaning they are added to the amount you borrow. This may seem like a wallet friendly option but it can be very expensive over the long term as you'll end up paying interest on the fees. Aim to pay them outright, upfront, if you can.

Note too, the way you use a mortgage can add to the fees you pay. Redraws for example are very handy, but many lenders charge a fee each time you claw money back out of your mortgage. Planning your cash needs and keeping redraws to a minimum is the best way to keep a lid on unwanted charges while making the most of a useful loan feature.

Paul Clitheroe's 'Making Money' for the week beginning 30 August 2010



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