$ Your Money

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Now's the time to negotiate with lender

The competition is really heating up now.

The lenders are flush with cash but borrowers are hiding as few people want to take advantage of the real estate bargains that are available out there.

If you can't find new borrowers why not steal the other guys?

That's the strategy out there right now. The lenders have decided to offer goodie after goodie to get us to move from our existing lender to them. And they're all doing it to each other.

The real question is whether we take advantage of these goodies, whether we hold out for others or whether we play our existing lender against the others to get similar benefits without having to move. That's one of my biggest complaints about these offers.

Most are for new or transferred mortgages. What happened to the idea of rewarding the people who stuck with you?

You are almost forced to move to get the benefits being offered to new borrowers.

I guess the real strategy is to not get roped in by these offers when they don't really offer as much as you can get all by yourself.

Enticing offers

Some of the offers look enticing though. One lender is offering three months of no interest on their seven year mortgages.

Others allow you to miss a payment once a year when you are squeezed. Then you have books of discount coupons and bonuses. And of course we have the usual waiver of legal and appraisal fees.

Some of these bonuses have some real value to them. But, others require that you opt for a long term loan, as long as seven years. To me, that makes these bonuses very expensive.

At present, it's a very competitive world in the banking business.

As a result, interest rates have fallen dramatically in the short term loan area. Six month and variable rate loans carry interest rates between five and six per cent. Yet, seven year loans carry rates in the 9 1/2 per cent range with five year loans just under 9 per cent.

Why would you voluntarily pay 9 per cent or more and be locked in for five to seven years when you could pay three to four per cent less and have the flexibility to take advantage of any further reductions in rates?

Interest rate story

The answer could only be that you feared that interest rates were going to rise. But, are they? Better yet, how could they?

The things that normally cause interest rates to rise are a strong demand for money or an upsurge in inflation. When there's strong demand for money the lenders have to pay more to borrow it in the wholesale markets.

In addition, there's more demand for money so they can get away with asking for more interest.

Inflation destroys the value of the money owing to us. As a result, when there are fears of higher inflation lenders often increase their interest rates to offset the loss in purchasing power.

But, is there any demand for money? Well, bankers tell me that most people with

(Please see page 17)