Borrowers forsake RAMS

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MORTGAGE brokers are warning of a rush to the exits from RAMS Home Loans because borrowers are desperate to refinance.

RAMS, the highest-profile Australian victim of the petrification of the US debt market, has sold its brand and franchise operations to Westpac after the share price tumbled, and amid continued uncertainty about its business model.

But the non-bank lender has retained its loan book, which brokers say is rapidly deteriorating in value. Roger Ward, from Ward Finance & Advice, said: "At the moment there's an absolutely dramatic overrepresentation of RAMS people that are refinancing. Not only are they looking around but we are doing the refinancing.

"At least 20 to 30 per cent of the refinances that I've done in the last month have all been RAMS, which is way out of kilter with their market penetration."

Brokers say that RAMS customers are looking to leave the lender in part because of the unwanted attention drawn to the RAMS brand, and in part because it has increased mortgage rates to uncompetitive levels.

Last week RAMS raised its three-year fixed-loan rate by a quarter of a percentage point to 8.39 per cent, which puts it near the top of the market.

RAMS had already lifted its variable home loan rate on low-document products by 0.3 per centage points. These are provided to people with little credit history or self-employed people whose incomes are irregular.

Mr Ward said that while RAMS was offering low-document rates of about 8.4 per cent, borrowers could easily find low-document loans at below 8 per cent.

A Five Dock mortgage broker, Yordan Kirov, estimated that 15 to 20 per cent of RAMS customers were refinancing. He said more would like to refinance but could not because property values had fallen.

Many non-bank lenders have had to raise mortgage rates because of higher funding costs caused by the breakdown in confidence in US debt markets, from where they draw funding.

While some of them, such as Bluestone Mortgages, have lifted rates several times, larger banks have been able to absorb the higher funding costs because they have access to customers' deposits.

Dennis Mrljak, from Smartline Mortgage Brokers in Parramatta, said customers were coming to him saying they wanted to borrow from a big bank. "Many of them are baulking when you even mention some of the smaller non-bank lenders," he said.

He said that while he had organised refinancing from only one RAMS borrower, he had had calls from others.

"It is perhaps the hysteria and the falling share price that people see," he said. "But other [RAMS borrowers] have definitely received letters that their rates were going up."

A loss of confidence in the RAMS brand raises questions about what value Westpac will be able to draw from its aquisition.

It also comes amid questions about how deeply the big banks will be able to claw back market share from non-bank lenders and whether borrowers will shift to fixed mortgages in an era of rising interest rates.

Last week St George Bank reported evidence of customers choosing fixed rates for five years instead of three. Mr Ward said a lot of "flight-to-safety" business was flowing to Commonwealth Bank and St George.

The Reserve Bank is expected to lift rates tomorrow.