House money

Owners ignore rate cuts

John Rolfe

MORE than 90 per cent of some lenders' mortgage customers have not reduced their repayments since 2011 when the RBA began the process of slashing the cash rate to the lowest level ever.

This helps explain why cuts have failed to stimulate the economy.

"We have seen a very muted response so far to interest rate cuts," AMP chief economist Shane Oliver said.

Dr Oliver said retail sales, consumer confidence and housing approvals had not improved in the way that would have been expected.

This is in part because homeowners have chosen to not spend the extra cash that becomes available to them when their minimum mortgage repayment falls.

Instead, they are maintaining their repayments in the event of further economic turmoil.

"They don't adjust as the rate goes down," Dr Oliver said. "They are still paying the same dollar amount."

Typically, when a lender reduces its variable rates in response to an RBA cut, the lender will not reduce a mortgage customer's repayments — unless the customer asks.

The Greater Building Society, one of the largest in the country, says that at least nine in 10 home loan customers haven't asked.

That means they are still repaying the same amount as they were in 2011, when the Reserve Bank of Australia began a series of cuts that has reduced its benchmark rate from 4.75 per cent to 2.75 per cent.

A homeowner with a $300,000 mortgage who chooses to not lower repayments is on their way to clearing their loan five years ahead of time, saving more than $80,000 in interest, according to Canstar. RBA data suggests homeowners are about $160 billion ahead on their mortgages.

john.rolfe@news.com.au