



FREE RATE REVIEW KIT . DOCUMENT 4 OF 4

The Rate Loyalty Tax Report

How Australian lenders quietly charge existing customers more than new ones, how to check exactly what you are being charged, and three things you can do about it.

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A note before you read this

This document is general information only. It does not take your personal objectives, financial situation or needs into account, and it is not personal credit, financial or taxation advice. All figures and examples are illustrative and do not represent actual or guaranteed outcomes. Before acting on anything here, please consider its appropriateness to your circumstances and seek advice from a licensed professional.

The pricing gap your bank does not advertise

Every major Australian lender runs two separate pricing books. The "front book" is what they offer new customers to win them away from competitors. The "back book" is what they quietly charge existing customers who do not ask questions. The gap between the two is what brokers call the rate loyalty tax. It is real, it is documented, and it is one of the most consistent ways Australian homeowners lose money on their mortgage without ever noticing.

Why the gap exists

Lenders compete fiercely for new mortgage customers because every new customer represents many years of future interest income. They compete much less fiercely for existing customers because the cost of acquiring you is already sunk and the odds that you will leave on your own initiative are low. The result is a rational, deliberate pricing strategy: sharp rates at the door, softer rates after the honeymoon ends.

This is not a conspiracy. It is straightforward unit economics. But it does mean that any homeowner who has been with the same lender for more than 18 to 24 months is statistically likely to be paying somewhere between 0.20% and 0.80% above what the same lender would offer them as a new customer today.

What that gap actually costs

On a \$700,000 home loan, 0.50% in extra interest works out to roughly \$3,500 a year. Over a remaining 20-year term, that is in the order of \$70,000 in unnecessary interest paid, all of it sitting in the bank's margin rather than in your offset or your principal. These figures are illustrative and will vary based on your actual balance, remaining term, and rate. The point is the order of magnitude.

Who is most likely affected

Customers on a variable rate with the same lender for 2+ years. Customers who fixed during 2020 to 2022 and rolled to revert variable rates. Customers who have never asked their lender for a discount review.

How to check what you are actually being charged

Step 1. Find your current rate

Log into your internet banking or pull out your last loan statement. Look for your "current variable rate" or "current interest rate". This is the back book number, the rate you are actually paying.

Step 2. Find the front-book rate

Go to your lender's public website and find their advertised rate for a new home loan customer at your loan-to-value ratio. This is the front-book number, the rate they are advertising to win new customers in your category.

Step 3. The gap

Subtract step 2 from step 1. If the gap is more than 0.20%, you are almost certainly being charged the loyalty tax. If it is more than 0.50%, the tax is material and you should act on it.

Step 4. Translate the gap into dollars

Multiply the gap percentage by your current loan balance. That is approximately how much extra interest you are paying each year. So 0.45% on a \$850,000 loan is roughly \$3,825 a year.

Three things you can do about it

- dot** **Negotiate.** Call your lender's retention team, mention the front-book rate you found, and ask for a "discount review". Many lenders will discount to match within a few basis points of their own advertised rate. This costs you nothing and takes about 15 minutes. Worth doing even if you plan to refinance.
- dot** **Use a broker to negotiate for you.** KTD can approach your current lender on your behalf with the leverage of "we will refinance away if you do not match the market". This often produces a better outcome than negotiating alone.
- dot** **Refinance to a more competitive lender.** If your current lender will not match the market, KTD reviews the full panel and finds a lender that will. This is the strongest move but requires the most paperwork.

The bottom line

The loyalty tax is one of the most predictable wins in Australian home lending. Most homeowners do not check for it because they assume their lender treats them fairly by default. They do not. They treat you to the rate you accept. The question is whether you accept it.