2017
Q1 Update

Home Sweet Loans
HOME IS WHERE THE LOAN IS…

March 2017

We hope you all survived the deluge of angry Deb. While we had some minor tree damage & no power for 2 days, it is nothing compared to what others around Qld & Northern NSW are currently experiencing! Our condolences go out to the families who have lost loved ones, their homes and personal belongings, not to mention the impact on their livelihoods. Some of the footage of peoples' homes torn apart, with others inundated by floodwaters is heartbreaking. Our thoughts & prayers are with you all!

Kudos must go to Annastacia & her Team for making the early call to shut schools on Thursday & Friday. While this may have inconvenienced some parents, that is better than the potential ramifications of having our kids being placed in danger due to the horrible conditions & unknown infrastructure damage. While it was also good to see Malcolm & Bill put hostilities aside & band together to visit the various disaster zones, it was extremely disappointing to hear Federal MP Adam Bandt trying to play politics in an attempt at 'political point scoring' at the expense of the people who are suffering! Perhaps the Honourable 'Member' should get out of his cushy inner-Melbourne lifestyle & hitch a ride to Qld's North with a bucket & mop to help him gain an understanding that these people didn't choose to have Mother Nature wreak havoc on their lives. Upper cut for you, you insensitive twit!

On a far less important note, we are currently experiencing lending conditions that I've not encountered in 17 years. Over the past month, I've come to the conclusion that it is currently the hardest period in financing homes that we've had, including the period immediately post-GFC. I thought it might just be us who are struggling with the constantly-changing lending parameters, until I recently met with a couple of high-performing peers. They also shared my angst at the current lending climate. Why? Coming up shortly…

Rachel is back (part-time), Lisa is settling in nicely, & for the first time in a long time, I'm feeling confident in our ability to continue to deliver the slick service we're known for.

There's no Footy Tipping comp this year, but we have a couple of awesome competitions coming your way. The first is an afternoon you won't forget: burning up the race track in a BMW M machine! Details on how to grab a seat later…

We've also commenced work on our 'Digital Media' project. Our Website is currently undergoing a redesign (to be completely honest, I've never been happy with it) & once complete, we'll systematically roll out the rest of the plan. We'll keep you posted at each milestone, and we're very excited with what we have planned. ;0)

So, onto what's going on with lending & interest rates… ☺

Interest Rates/Lending – What's going on?

Lending

Seriously, if I see another Lender Alert with yet another policy change, I'm going to… not kidding, not a week passes without a change in lending policy or repricing of interest rates. So much so that we're truly struggling to stay on top of this, & we're known within the industry for being 'on top of the game' in this regard. Twice in the past week I've been caught out by policies that I wasn't aware of, that have impacted our clients' applications. One had changed in January, hidden in an email that you had to get a Forensic Auditor to assist in deciphering; the other not in actual policy, but a 'risk' directive that we're never publicly advised of. We're actually compiling a 'Policy Cheat-sheet' to minimise the impact on us of these changes – I haven't required one of these for over a decade!

So why all the changes?! APRA (the Australian Prudential Regulatory Authority), in conjunction with ASIC, is charged in ensuring lenders stay in line with 'Responsible Lending' Legislation/Regulations. To say lenders across the country are nervous is an understatement. Right now, APRA says 'jump' and lenders respond with 'how high?'.

APRA still feel that lending is not tight enough. They also have some reasonable concerns around lending in the current low interest rate environment, especially at high LVR (Loan to Value Ratio) margins. Not only do they want lenders to have a certain percentage of their lending book in cash for future 'cushioning', but they also want lenders to increase their 'equity' positions – the amount of 'equity' we hold in our homes. Investment lending remains a serious concern, yet their current cap of 10% growth PA in investment lending has not had the impact they desired. Why? Once one lender reaches their cap, the business moves to another lender, & so the game of musical chairs continues. Has it cooled the investment market (predominantly Sydney/Melbourne)? Nope!

Another current issue we're facing is with Interest Only loans. This week APRA advised lenders that they must impose a cap on total new I/O lending of 30%. APRA view I/O lending in the current environment to be indicative of a 'higher risk profile'. No timeline for implementation has been imposed, allowing lenders to get their house in order first. Hence the new differentiation of interest rates on I/O lending, in an attempt to force borrowers to switch to Principal & Interest repayments. This won't impact too many Investors, but will have a huge bearing on Owner Occupiers with I/O repayments. I'm also expecting more policy changes to be rolled out in the coming months around new lending to reflect this. We've already seen ANZ cap I/O loans at 90% LVR.

What is APRA concerned about that they have to wield a stick to protect us? Clearly, the Government is not comfortable with the economic climate (locally & globally). While we may feel that things are moving along smoothly, the indicators perhaps are not painting a rosy picture. Their primary concerns centre on the dangers of a debt fuelled/laden housing boom & don't want loose lending practices contributing to an unsustainable housing market.

I read an informative article this morning that highlights some potential concerns surrounding another potential recession. Here are some excerpts:

HAVE a guess. In the modern era, what is the average interval between recessions in the US? Take the modern era as 1980 onwards, loosely covering the period since officials there embarked on an extravaganza of financial deregulation. By way of a hint, there have been four recessions over that period, setting aside a short and sharp one at the start of that year.

The answer? **The average interval is seven years and nine months**. And that means we have just hit a milestone. **As of last month, seven years and nine months have passed since the most recent recession in the US**, the Great Recession of 2007 to 2009.

In itself, that is trivia. After all, the US went 10 years without recession after 1991 and **Australia** is on track this quarter — if only by virtue of a population boom — to notch up a **world record 26 years of uninterrupted growth**.

But the milestone does serve as a powerful reminder that every era of economic expansion comes to an end. Casting the net wider, the average time that has lapsed between US recessions in the post-war era — there have been 12 since 1945 — is less than five years. In crude terms then, the current run of economic expansion is on borrowed time if history is any guide. And borrowed may be the operative word.

A report published last week lays bare a **troubling development quietly unfolding in the US**. **There has been a significant contraction in US bank lending in recent months**. The slump is particularly stark in commercial and industrial lending, broadly covering loans to businesses: it is down 5.4 per cent in annualised terms since December. "**Historically, credit downturns led economic recessions**. We have not seen such a sharp deceleration in bank lending to US corporates since the Great Financial Crisis".

There is no cause for concern yet, and "at this stage" Morgan Stanley believes **a downturn in the US is unlikely**.

At almost $US200 trillion ($260 trillion), the global debt pile is at a record high not only in absolute terms but relative also to global economic output. The problem is that the credit contraction comes at a delicate juncture for the global economy.

And from the Australian perspective in any case, the US is less significant — slightly — than it once was, if only by dint of our increasingly strong ties with China. Still, it was an exceedingly rare combination of circumstances that ushered Australia through the financial crisis last decade free of recession. Among them were China's insatiable appetite for our minerals and a government balance sheet in rude health — the latter, at least, now consigned to history. **Next time the American economy crunches into reverse, the odds are unquestionably stacked against us.**

In that context, the mere hint of stress fractures in the US should give us pause for thought. Economists and other market commentators frequently muse about the course of the **global "recovery". The fact we are still using such a term almost a decade after the onset of the financial crisis is troubling. It is not troubling because it is incorrect, but because it emphasises how ill-equipped we are for the next such crisis.**

America's Great Recession ended almost eight years ago. Typically, the US and by extension the globe would by now have gone through the full economic wash cycle. **Yet interest rates there and across the developed world — including in Australia — remain at or near record lows**. They are moored barely above zero and in some cases at or below it. When the financial crisis carved its destructive path through the global economy late last decade, central bankers predictably and appropriately cut rates dramatically. They have since been negligent at best and at worst reckless: the dovish among them have prevailed to such an extent that the ammunition has never been replenished. **The interest rate lever has been rendered all but useless.**

The US credit contraction of recent months may prove just a blip in America's painfully-protracted recovery story, and this period of economic expansion may well have far longer to run. **But history says we should make no mistake: the clock is always ticking.**

Notwithstanding any of the above, my personal frustration surrounds the fact that any APRA induced changes are systematically rolled out over an expanded period across lenders. Why not just issue one directive to cover all at the same time? Would make our job much more manageable!

Interest Rates

Oooh, my favourite topic! NOT! If you think we're struggling with policy changes, you should see our interest rate charts. I don't know how anyone in our industry can say they are across ALL lenders' rates in the market. Several changes are now happening with interest rates:

- Owner Occupier & Investment Rates have separated
- Principal & Interest and Interest Only loans have now separated (for both O/O & Investment)

There have been minimal changes to fixed rates referencing P&I and I/O – however, watch this space.

So now we have four separate Reference Rates covering the above. Six months ago, they were covered by one single Reference Rate! So imagine being asked 'what is the best rate out there?'… 'Would you like fries with that?'

Why the four R/R's? So that interest rates can be adjusted accordingly as per the spiel in the previous topic. Right now, we're seeing a gap of about 0.60% between O/O & Investment lending - add 0.25% (on average) for I/O lending. The rise in I/O rates for O/O lending will see many borrowers switch to P&I repayments – while some may consider switching to Fixed sooner rather than later to retain I/O at lower rates – which is exactly what I will be doing!

No doubt the media in all its professionalism (or lack of) will pounce on these increases (as they have already done in some instances) – home owners slugged, blah blah - but the stark reality is that cost of funds for lenders has increased, especially in light of the US Fed raising rates recently, & APRA's discouragement of certain lending profiles (Investment & Interest Only) has forced Lenders to move.

Ultimately though, they have all attempted to minimise the increases on home owners (O/O, P&I) with increases between 0% - 0.07% amongst the Big Four, up to 0.30% with the 2nd Tier & 'Boutique' Lenders. Not so for Investment with on average, another 0.25% discouragement slug.

The reality is that most of us are sitting in the 4s. That's right, FOURs! My generation & older still clearly recall the days of 18-20%. My first home loan was locked in at 13.9%, & that was a good rate at the time. Yet, here we are crying about an increase in the 4s – I say enjoy it while it lasts, as I think we've passed the 'bottom'… it's foolish to believe that it will stay here forever.

My crystal-ball gazing… I see investment rates gapping at circa 1.00-1.50% above O/O rates. I also feel that given APRA's want for more P&I profiles, we may also see a circa 0.50% gap between P&I and I/O.

And… the 'cheapest rate'? You'll have the cheapest rate for about a week, then you'll regret moving because you're paying more than you were before… that's another game of musical chairs that currently inhabits our industry.

Please contact us should you wish to discuss/review your Interest Rate options.

VROOM VROOM!

Fancy an afternoon ripping up the race track in a BMW M machine?! Well here's your chance to join us on **Friday 4 August 2017**. This event will be held at Norwell Motorplex (near Yatala).

We have **5 'seats'** to give away & you will have multiple chances to enter, including the ability to enter multiple times. It's an afternoon you won't forget!

Competition is open to ALL of our clients & referrers, & closes on **Friday June 30 2017**. Winners will be announced in our Q2 Update.

How to Enter*

- Keep an eye on your Inbox for opportunities to enter.
- Refer someone to our services, & if it converts to an application, you receive **3** entries.
- Have a Loan 'Formally Approved' with us, & receive **3** entries.
- Email us now with the Number Plate of the BMW M2 in the pic above, & receive **1** entry.

Good luck! Looking forward to you joining us & your opportunity to whip me in the Motorkhana… ☺

* Please email us for Terms & Conditions.

Home Sweet Loans - Housekeeping

PLEASE NOTE that we are here to assist during the application process, and post settlement. If you require any assistance whatsoever once you have your loan in place, please call us at any time. This alleviates any issues that you will encounter dealing directly with your respective lender, especially when it comes to product switches and discharges/releases.

We Value Your Thoughts!

Gift vouchers; movie tickets; a night at the footy; lunch/dinner at sumptuous restaurants – the more of your family & friends you refer, the greater your rewards!

Take Care
Tarek