Summer 2019 Newsletter

MORTGAGE & FINANCE

Mortgage & Finance (HOLDINGS) PTY LTD

- UPDATE -

A BOOST FOR BORROWERS

APRA's change to the serviceability assessment rate has been met with positivity, as many dubbed the rate introduced in 2014 outdated.

While many expect the changes to lenders' serviceability assessment rates to make borrowing easier, others believe the expansion of comprehensive credit reporting and other regulations may impose higher standards on the banks.

APRA confirmed at the start of July that it would no longer expect lenders to assess home loan applications using a minimum interest rate of at least 7%. Common industry practice has been to use a rate of 7.25%.

Banks will instead be able to set their own serviceability rates.

The move could mean that many borrowers who have been denied finance because of the guidance issued in 2014 are now eligible for loans.

But it seemed at first that the banks were taking a cautious approach to APRA's decision, and some commentators, like the FBAA's managing director, Peter White, encouraged them to respond more quickly.

> *"Brokers are trying to help buyers purchase a home, but banks have been holding them ransom," he said.*

ANZ was the first major bank to announce a change to its floor rate, amending it to 5.50%. Westpac followed suit with 5.75% and CBA later announced the same. NAB was the last of the big four to drop the rate, saying it welcomed APRA's change and moving to 5.50%. All banks also revised their interest buffers to 2.5% in addition to the actual rate charged.

"With most lending institutions offering interest rates between 3% and 4%, an assessment rate of 7.25% was unfair.

As brokers it makes it more difficult to get approval and creates immense disappointment and confusion for clients if banks use outdated data to assess the suitability of average Australians to pay off their home.

The reduction in the assessment rate will make it easier for existing borrowers to refinance so they can escape their existing mortgage prisons because of unreasonable rates and conditions." Peter White, FBAA

HOW HOMEOWNERS WILL BE AFFECTED

Analysis of what APRA's announcement really means shows that many Australians may be able to boost their borrowing power by tens of thousands of dollars. A family on an average household income of $109,688 should be able to borrow up to around $60,000 more, even if their loan is assessed at a rate of 6.25%.

> *Research director Sally Tindall said that if more people get their home loans approved, house prices could start to increase.*

"APRA is allowing banks to set more than one interest rate floor, acknowledging that lenders charge lower rates for some loan types, such as owner-occupiers." Tindall said.

A LEVEL OF CAUTION

While the outlook is mostly positive for accessibility of finance, CoreLogic analyst Cameron Kusher has looked at the wider landscape.

Firstly, from 1 July, comprehensive credit reporting has been expanded, so lenders will now have more information on credit history, including types of accounts, dates the accounts were opened, current credit limits and account closed dates, as well as two years of repayment history.

Secondly, the industry has seen the adoption of the new Banking Code of Conduct, which sets stringent standards for anyone applying for a loan, whether for a home or a small business.

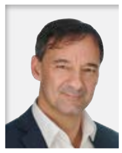
"Furthermore, banks continue to have a very close focus on living expenses assessment when deciding whether a borrower is creditworthy.

> *"Given all of this, we believe that mortgage credit is going to become a little more accessible; however, there will remain a level of conservatism and caution from lenders*

– especially given the royal commission that has recently occurred and the fact that they have much more data available to them in order to make decisions about the creditworthiness of borrowers."

- MPA MAGAZINE -

WELCOME TO OUR SUMMER EDITION



Economic headwinds, lack of business and subdued consumer confidence have all plagued the WA economy over the last few years. Seeing home values bounce back and continue to rise on the east coast just emphasises what a different economy we have in WA.

With valuations down 20% over the past 5 years, many households are not in a position to take advantage of investment or refinance opportunities, or it is difficult to have the confidence to invest when your equity position and overall wealth have taken a hit across the board.

Much of the community is stuck. Those who wish to upgrade find out that the cost of selling and the funds required to purchase the home they wish to is not possible, as they have overestimated the value they have in their home. Others who wish to complete home improvements or extensions to their exiting home are also restricted as the banks are advising them that after they complete the work, the valuation will not be enough for the increase to be approved.

This means many are having to place their plans on the back burner for a future time when their existing loans are either lower or valuations have increased to point were, they can consider the options of moving forward.

With a lower valuation than expected, it then becomes unviable and too costly to look at options as you may be in Lenders Mortgage Insurance territory and the cost to benefit ratio does not make the goal possible.

There are signs of improvement, however, though the changes seem to be slow and gradual. It may be some time before we gain enough whereby confidence does return in the Perth market.

We have seen first home buyer numbers increase (approx. 24% of all home purchases taking place in the market) as they identify now is as good at time as any to enter the market.

BIS oxford Economic residential property prospects 2019 to 2022 report shows that price growth is also being limited by oversupply and low migration inflows into WA. The new proposed government initiatives and mining projects should bring a boost to the overall sector in the coming year and with the rental vacancy becoming very low it should filter to stable and improving rental returns for investors.

Finance conditions have somewhat stabilised and the prospect of possible further cuts seems more likely in the short term with longer term rates staying low. It does provide some level of assurance that the cost of finance is not expected to change adversely anytime soon.

We wish you, your families and your friends happiness over the holiday season and success in your endeavours. We thank each and everyone one of you for your continued support over the past years and look forward too many more conversations and discussions with you in the future.

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MORTGAGE BROKERS TO THE RESCUE

Although difficulty and confusion rule the home loan process due to differences in products and policies among lenders and the widespread belief that buying a home in Australia is harder than ever, 68% of Australians believe that seeking the help of a broker makes getting a home loan easier. For 86% of Aussies, being able to talk to a home loan expert and work with someone who has direct local knowledge are important to a good home loan experience.

68% BELIEVE **SEEKING HELP OF A BROKER MAKES GETTING A HOME LOAN EASIER**

Survey results

STRONGLY AGREE · AGREE · DISAGREE · STRONGLY DISAGREE

It's confusing that banks all have different home loan products and policies

22% | 57% | 18%

Buying a home in Australia is harder than ever

27% | 50% | 21% | 3% — 76%

A mortgage broker makes getting a home loan easier

12% | 57% | 27% | 5% — 68%

EXTREMELY IMPORTANT · IMPORTANT · SOMEWHAT IMPORTANT · NOT IMPORTANT · DON'T KNOW/NOT SURE

Being able to talk to someone early on

25% | 43% | 19% | 3% | 10% — 86%

Access to home loan experts

27% | 40% | 19% | 4% | 10% — 86%

Working with someone who has direct local knowledge

23% | 42% | 21% | 4% | 11% — 86%

Someone who can just take control and manage it for me

18% | 33% | 27% | 10% | 12% — 78%

- AUSSIE -

YOUNG SAVERS KEEP THEIR EYES ON THE PRIZE BY SETTING MORE GOALS

Savers aged under 24 set more money goals than other age groups, new research has found.

Despite widely-held views that young Australians focus more on today than tomorrow, a Westpac analysis of 17,000 accounts has found that 18-24 year old are creating the most goals, with travel their most popular target.

Savers aged 25 to 34 are more focused on saving for a home, according to the bank's analysis of its Life accounts, which allow people to open up to six goals in one account. Other popular choices include saving for cars, pets, weddings, Christmas and "just in case".

Westpac head of savings Kathryn Carpenter said two-thirds of Millennials believed they saved more if they had a specific target in mind.

> *"Young Australians are growing up in a time of low income growth and higher cost of living, so there is a need for them to be more financially savvy," she said.*

"Without documenting goals, it's easier to lose sight of what they are and fall off the money-saving wagon.

"We often find that people come back from the holiday season with a new year's financial resolution, but without a plan or regular deposit this can dip into inaction within several months."

People's Choice Credit Union spokesman Stuart Symons said up to 80 per cent of people had given up their new year's resolutions by February.

He said savings plans could be sped up by cutting back on alcohol and other vices, takeaway meals, coffees and personal trainers. "Hit those training sessions hard, but perhaps cut back on one every week – spend that time doing a run or workout with friends."

SAVE MORE IN 2020

1. Set goals, detailing what you are saving for and your timeline.
2. Choose the right savings account and try to avoid withdrawals.
3. Smaller regular deposits are better than irregular large deposits that may strain cash flow.
4. Set up automatic transfers to savings account, which makes consistent saving easier.
5. Have a savings buddy such as a partner, sibling or friend to keep each other accountable.
6. Set up a budget and review your spending.

- NEWS.COM.AU -

YOUNG SAVERS

18-24YRS
CREATING THE MOST GOALS
MAIN TARGET: TRAVEL

25-34YRS
MAIN TARGET: HOME
OTHER GOALS: CARS, PETS, WEDDINGS, CHRISTMAS AND "JUST IN CASE".

WA HOUSING: STATE GOVERNMENT ANNOUNCES STAMP DUTY REBATES OF UP TO $50,000 TO RECHARGE LACKLUSTRE MARKET

Apartment and unit buyers will get a rebate worth up to $50,000 on eligible properties under a two-year scheme announced by the State Government today.

It comes after The West Australian revealed industry lobby groups joined forces to demand the State Government offer stimulus for the struggling sector.

The rebate revealed by Premier Mark McGowan will be available for two years to any purchaser who signs a pre-construction contract to purchase a new residential unit or apartment in a multi-tiered development.

There will be no cap on the purchase price and multiple rebates will be available to the same applicant.

> *Premier Mark McGowan said the initiative would drive investment into the residential construction industry and support the property sector.*

"This is one of those great developments that creates jobs, creates life and activity and ensures people can live in proximity to work or social opportunities," Mr McGowan said.

"This is exactly what Western Australia needs, it's exactly what Perth needs, it's what our regional cities need.

"It's limited to two years and then we'll see how it's tracking. It's designed to get development happening in WA right now."

Property Council WA executive director Sandra Brewer said it evened the playing field between houses and apartments.

"What this policy really does is balance land development for house and land packages with apartments that are sold off the plan," Ms Brewer said.

"Up until now if someone was to buy a house and land package the stamp duty would only be applied to the land.

"It just levels the playing field between house and land packages perhaps on the outskirts of Perth to what people can buy in inner city areas or beach or river locations."

Treasurer Ben Wyatt signalled it was unlikely the Government would tinker with the foreign buyers surcharge because of the policy change which captured overseas investors.

"The rebate captures not just the stamp duty but the foreign buyers issue as well," he said.

> *"We understand that in terms of these larger complexes... often a percentage of foreign buyers is larger than the broader housing sector, that's why we've made this decision around what is a decisive policy."*

Mr Wyatt said the policy would take about $30 million out of the Budget over the forward estimates subject to the real demand.

Planning Minister Rita Saffioti said it would also promote urban infill in residential developments in close proximity to Metronet stations.

The stamp duty change means first-homebuyers purchasing a $500,000 property would pay $3358 in duty, instead of the current $13,433.

Other buyers purchasing a property of the same value would pay $4441 under the new scheme, instead of the current charges of $17,765.

The top saving would accompany a $1.5 million property, which would incur a duty of $18,365 under the new scheme, saving $50,000 on the current $68,365.

The initiative has also been welcomed by the Urban Development Institute, the Real Estate Institute of WA and the Master Builders Association.

Property industry players met senior McGowan Government ministers last week to plead their case for a sweeping stimulus package aimed at breathing life into the WA's stagnant housing market.

Perth property prices have fallen 20 per cent since peaking in mid-2014 and as many as one in three homeowners is experiencing mortgage stress.

- WWW.PERTHNOW.COM.AU -

TREASURER LAMENTS 'GREY AREA' IN SME LENDING SPACE

Treasurer Josh Frydenberg has called for clarity concerning the provision of small business credit in light of confusion regarding responsible lending obligations of credit providers.

In discussions with Commonwealth Treasurer Josh Frydenberg, banking industry stakeholders have reportedly highlighted gaps within existing responsible lending guidance, particularly in relation to the provision of small business credit.

According to Mr Frydenberg, some small business owners, particularly those using residential property as security, have been hindered in their pursuit for funding by interpretations of responsible lending laws, tightened in the aftermath of the banking royal commission.

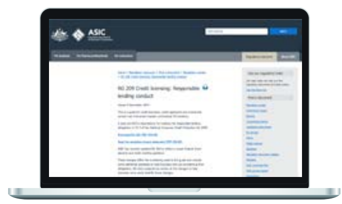
"There's a real grey area as to what is a small business loan and a personal loan," he said.

> *"Small businesses are exempt from responsible lending standards; however, they are being inadvertently caught in the tightening of those standards post the Hayne royal commission as many use the family home to secure finance.*

"One of the concerns the government fully understands is the need for clarity about the indirect application of responsible lending laws to small business when the family home is used as security."

The Treasurer encouraged lenders not to "feel nervous" about how they deal with consumers with small business credit needs.

Mr Frydenberg's comments come amid the Australian Securities and Investments Commission's (ASIC) work to revise its responsible lending guidance (RG209).



ASIC has concluded two phases of consultation with industry stakeholders as part of its work to revise RG 209.

> *The regulator is expected to publish its new guidance before the end of the calendar year.*

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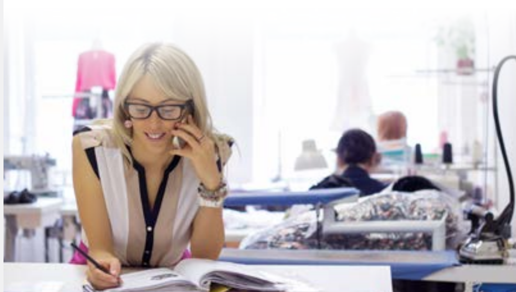

APPLY NOW

HOME LOANS

BUSINESS LOANS

CAR AND EQUIPMENT LOANS

INTEREST RATES

OWNER OCCUPIERS

2.74%

FIXED FOR 3 YEARS

*CONDITIONS APPLY

COMPARISON RATE 3.29%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

CUT THE COST OF LMI

Homebuyers who borrow more than 80% of the value of a home (loan to value ratio) or (LVR) generally pay a Lenders Mortgage Insurance fee (LMI).

LMI protects lenders, not you the borrower if you default on your loan. It is a once off fee that is paid at the time of purchase or refinance of a loan where you are borrowing greater than 80% of the value of the security.

Loss of principal, unpaid interest and any reasonable recovery costs such as legal fees any repairs to the home and outstanding rates are covered by LMI. If there is any shortfall in the lender recovering their funds, the insurer can pursue you for the shortfall.

The premiums can vary. A deposit of $ 96 000 for a $ 600 000 property would attract an LMI fee of $11 500. If you save $20000 more the premium would be cut by $4000.

What consumers are unaware of is that while there are two major insurers in the name of Genworth and QBE, many of the lenders self-insure their loans. The LMI premiums charged for the same loan application can vary significantly from one lender to another.

So in addition to assessing your borrowing capacity with each lender, their interest rates and loan features, we also need to be aware of their LMI premium.

We can also identify those lenders where you pay less and save more in the process for any refinance or purchase you make. This can vary much from one lender to another based on their individual calculators.

> *The saving can be thousands of dollars.*

Lenders use different scales to calculate this premium. One lender's scale will have set premiums for loans up to $300 000, a higher set premium for loans from $300 000 to $600 000, then higher again from $600 000 to $1 million and so on. These scales can vary from lender to lender. Some offer specials for first home buyers and premiums can vary based on post code locations, loan sizes and type and purpose use of security i.e. owner occupied or investment, new home or established etc.

We often demonstrate that by keeping you loan to below 90% for example, the LMI premium will be at one level but the moment you go above this critical ratio of 90% it jumps dramatically so by just contributing that little bit more towards any purchase can have a major bearing on the once-off LMI fee. This once-off LMI fee is not portable so if you wish to refinance to another lender and if your loan is going to be above 80% you will incur another LMI fee.

Valuations in this instance can also vary from one lender to another which is another benefit we have, As we can order valuations from numerous lenders, again as a mean to minimise cost where possible for any given scenario.

> *While you may not be able to avoid this cost of LMI, we can certainly look at how we may minimise this cost for all concerned and save you thousands in the process.*

It is one of the comparative advantages we have to maximise the savings customers can achieve when using our services.

- YIP -