Spring 2020 Newsletter

MORTGAGE & FINANCE

- UPDATE -

Mortgage & Finance (HOLDINGS) PTY LTD

RESPONSIBLE LENDING 'PENDULUM' HAS 'SWUNG TOO FAR'

The Reserve Bank governor has criticised recent interpretations of responsible lending obligations, stating that banks should not bear total responsibility for a borrower's failure to repay their loan.

Appearing before the House of Representatives standing committee on economics in August, governor of the Reserve Bank of Australia (RBA) Philip Lowe was asked to assess the impact of responsible lending arrangements on the flow of credit.

Governor Lowe backed principles enshrined in the National Consumer Credit Protections (NCCP) Act, namely the "not unsuitable test", which he described as "imminently reasonable".

"[The legislation] says that when extending credit, the loan can't be unsuitable. Who can argue with that?" he said.

"And in making the loan, you've got to make reasonable steps that the borrower can repay. Who can disagree with those two broad principles?"

"I find it very hard to disagree with them."

> *However, the central bank governor was critical of subsequent interpretations of the legislation.*

"What has happened is that those principles have turned into hundreds of pages of guidance," Mr Lowe continued.

"Once the compliance people, the lawyers, the regulators, the media get involved, these high-level principles put in law turn into a lot of guidance because people don't want to fend these regulatory requirements.

"The principles in the legislation, I think, are sound. But the way we've translated those principles into reality, I think, needs looking at again."

Mr Lowe added that the legislation may need to be amended to provide the industry with further clarity, in light of compliance disputes brought to the fore by the "wagyu and shiraz" case between the Australian Securities and Investments Commission (ASIC) and Westpac.

Governor Lowe went on to stress that banks should not bear complete responsibility for a borrower's inability to repay their loan, adding that such arrangements would have unintended consequences on the flow of credit in the economy.

> *"We can't have a world in which, if a borrower can't repay the loan, it's always the bank's fault," he said.*

"On a portfolio basis, we want the banks to make some loans that actually go bad, because if a bank never makes a loan that goes bad, it means it's not extending enough credit."

He added: "The pendulum has swung a bit too far in blaming the bank if a loan goes bad because the bank didn't understand the customer.

"[The mindset of some] is that if the bank had done proper due diligence, the bank would never had made the loan."

ASIC recently revealed that in light of the Federal Court's decision to dismiss its case against Westpac, it would review its updated regulatory guidance (RG 209) and consider the implications of the Federal Court's decision on compliance practices.

ASIC issued its new guidance in December 2019, after holding two rounds of public consultation with industry stakeholders.

The principles-based guidance was designed to provide lenders with greater clarity and flexibility amid uncertainty off the back of scrutiny from the banking royal commission.

However, ASIC has stressed that prospective reforms of the National Consumer Credit Protection Act to further clarify the enforcement of responsible lending obligations is "ultimately a matter for the federal government and Parliament".

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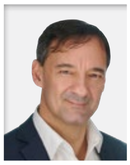
WELCOME TO OUR SPRING EDITION



In the quarter we have seen a frenzy of enquiries and rush of people wanting to secure land and house packages to take advantage of the state and federal building grants.

The Urban Development Institute (UDA) WA quarterly report recorded 3322 new lot sales in the June 2020 quarter, the highest since the survey started in 1990, and 126% more than the 1466 lots sold in the March 2020 quarter.

We also surprisingly have had a healthy increase in house purchases despite the number of homes on the market dropping since the same time a year ago from 14 195 to 10 375. Rental vacancies in Perth have continued to fall to 2% compared to 3.1% this time last year, the last peak was July 2016 at 5.5%.

Talking to many agents ourselves, it seems to be the common feedback that rentals are becoming harder for tenants to secure. The number of property-related investment loans has decreased and tougher lending criteria and changes to investor loans has made them less attractive than previously. The property market has declined over the past 5 years and has reduced the number of investors in the market over this period significantly.

This trend may continue, and lead to less investment properties on the market which will add pressure for rents to increase once the emergency COVID period ends and market forces come into play.

We have had more restrictive lending policies in play during this past quarter with most lenders reducing the percentage of income used for calculating borrowing capacity relating to overtime and allowances, even when this income is a fixed component of the existing salary packages. For example, where a lender may usually use 100% or 80% of certain allowances and overtime it has been reduce down to 60%. This creates downward pressure on what people can borrow and on home prices in the short to medium term.

The opportunity to refinance or obtain a more competitive deal is still there and rates are currently at time lows, which is great for those seeking to save or improve their position.

We thank you for your referrals of friends and family and appreciate your continued use or our services and keep in mind we are only an email or call away for any queries or switches etc you may wish to do.

VIC GIANNAKIS - DIRECTOR
0413 154 263
vicg@betterchoice.net.au

CONTACT US FOR FURTHER INFORMATION & GUIDANCE
Mortgage & Finance Call 08 9240 2446 Email vicg@betterchoice.net.au
Suite 12, 10 Whipple Street Balcatta Western Australia 6021 Australian Credit Licence Number 384633

PERTH'S AFFORDABLE SUBURBS SHOWING GROWTH

We are seeing sales activity growth in the more affordable end of the market, with eight of the top 10 suburbs, having a median house sale price under Perth's current median of $475,000, seeing an increase in sales activity growth in July.

CURRENT MEDIUM HOUSE PRICE

PERTH $475,000

SALES AFFORDABLE SUBURBS

BYFORD	92%	HEATHRIDGE	42%
PORT KENNEDY	88%	BANKSIA GROVE	38%
QUINNS ROCK	50%	YANGEBUP	29%

During the month of July, Byford had a 92 per cent increase in sales activity compared to June and a median of $380,000.

Following this was Port Kennedy which increased 88 per cent in sales activity and a median of $340,000 and Quinns Rock with 50 per cent increase in sales and a median of $450,000.

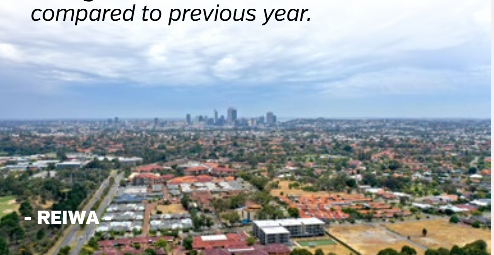
Rounding out the top five is Heathridge with a median of $430,000 and 42 per cent increase in activity, and Banksia Grove with a median of $355,000 and an increase of 38 per cent in activity.

Close behind this was Yangebup (median of $415,000 and activity up 29 per cent), Falcon (median of $340,000 and activity up 29 per cent), Baldivis (median of $366,250 and activity up 26 per cent), East Fremantle (median of $1,100,000 and up activity 20 per cent) and Southern River (median of $540,000 and activity up 17 per cent).

It is pleasing to see the increase in sales activity as it shows that the established real estate market is still performing quite well despite the significant increase we have seen in land sales since the government grants were announced at the start of June.

> *In addition, the increase in activity at lower price points demonstrates move activity by first home buyers due to the no stamp duty payable on a purchase of an established home under $430,000.*

In the latest Lending Indicators by the Australian Bureau of Statistics showed there was a 2.6 per cent increase in the number of loans to first home buyers during the 12 months to June 2020, compared to previous year.



- REIWA -

RBA GOVERNOR DEFENDS STANCE ON NEGATIVE INTEREST RATES

Reserve Bank governor Philip Lowe has hit back at claims that the central bank's stance on negative interest rates is "putting bank profits ahead of jobs".

In his appearance before the House of Representatives standing committee on economics in August, governor of the Reserve Bank of Australia (RBA) Philip Lowe was questioned over the central bank's reluctance to move to negative interest rates as part of its monetary policy response to the COVID-19 crisis.

Mr Lowe stressed that the central bank has not ruled out negative interest rates, but reiterated that such a move would be "extraordinarily unlikely".

"In a world so uncertain and so fluid, I don't think it's prudent to rule it out, but I think it's extraordinarily unlikely," he said.

The RBA governor acknowledged that negative interest rates would help support the export market by placing downward pressure on the exchange rate, but warned that the policy may pose new risks to financial stability.

"[Negative] interest rates, in most countries, do impair the profitability and efficiency of the financial system and, ultimately, its ability to provide credit to the real economy, which is really important," he said.

"We're seeing this in Europe now, there are a lot of problems with the European banking system. [They have] structurally low profits, and it's quite difficult for them to provide the credit to the economy that's needed."

"[Negative interest rates] would also create distortions in our financial system because deposit rates would effectively be bounded at zero. That's what happens in other countries for most depositors," he continued.

"So, a bank that finances itself with a lot of deposits would be at a competitive disadvantage to one that finances itself in wholesale markets at negative interest rates."

Mr Lowe added that negative interest rates may also be counterintuitive, pointing to evidence that suggests the policy setting discourages spending. He added

> *"In many countries, there's increased concern that negative interest rates encourage people to save more, not spend more,"*

"Imagine, I tell you, 'Put $100 in the bank and in five years' time, I'll give you back $95.' In response to that, we're seeing in some European countries – and in Japan there's some evidence of this as well – that people say, 'Well because I'm going to get less than the bank in three- or four-years' time, I've got to save more.'"

"So, reduced supply of credit, and maybe some people save a bit more, versus the benefit of the exchange rate. In this current situation, I don't think the cost-benefit justifies negative interest rates."

According to Mr Lowe, the RBA's global peers share the same sentiment.

"Since we've had the pandemic, no central bank that's had positive interest rates has gone negative, and no central bank with negative interest rates has gone more negative," he said.

> *"I think that tells you that the consensus among central banks is [there's] not much to be gained from doing this, and perhaps the costs are greater than the benefit."*

In response, Labor MP and deputy chair of the committee Andrew Leigh accused the RBA of "putting bank profits ahead of jobs" by forgoing the benefits of negative interest rates on the exchange rate in fear of the impact on the financial system.

Mr Lowe replied: "I take issue with the contention that I'm putting bank profits before jobs. What I want to see is the credit supply process work effectively

"[We] need banks that are profitable and that are willing to supply credit [to ensure the] credit supply markets are not distorted.

> *"My concern, at least at the moment, is that negative interest rates would make credit supply more difficult and that would hurt jobs."*

He concluded: "It's not about bank profits, it's really about jobs. My current view is that negative interest rates couldn't help jobs, and arguably could make it worse."

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WESTPAC'S WIN STANDS IN HOME LENDING CASE AS ASIC APPEAL DISMISSED

The corporate regulator has lost its appeal of Westpac's Federal Court win in a landmark case about responsible lending.

The full bench of the Federal Court dismissed the Australian Securities and Investments Commission's appeal, in a decision of two judges to one.

KEY POINTS

- The Federal Court dismissed ASIC's appeal and ordered it to pay Westpac's costs
- ASIC alleged that Westpac breached responsible lending laws when making around 262,000 home loans
- It's been a long legal process, as the parties initially agreed to settle the case but the court refused to approve the deal

- ABC.NET.AU -

DECLUTTER YOUR HOME

Spring is nearly here, and it's a great time to think of Spring cleaning! Prevent the clutter in your home from returning in the future with these four simple tips:

1 DON'T ALLOW POTENTIAL CLUTTER INTO THE HOUSE IN THE FIRST PLACE

Before you purchase or acquire anything new, ask yourself, "Do I really need it?" and "Where will I keep it?" If you don't have an immediate answer to those two questions, don't bring it home.

2 DECLUTTER A LITTLE EACH DAY:

Deal with mail, clothes, toys and other common clutter a little each day. Set aside 20 minutes a day and you'll avoid having to find hours to clean up messes in the future. If you build this time into your daily routine, you are likely to have greater success. If daily isn't doable, plan a weekly declutter sweep and be sure to give yourself enough time.

3 USE THE ONE IN, ONE OUT RULE:

Whenever you bring something new home, you have to throw out or donate something else. You can even implement this room-by-room – it'll make you think about where you will keep this new thing.

4 DON'T BUY. RENT OR BORROW:

If you need something only once in a blue moon, consider renting or borrowing.

HOW TO DECLUTTER YOUR LIVING ROOM

> *Nothing feels as good as a sitting down to enjoy family, friends or entertainment in a clean and organised room.*

REMOVE CLUTTER THAT DOESN'T BELONG

Start by removing any items that have lost their way and belong in another room. Look for toys that belong in your kids' rooms, mail or magazines that belong in the office.

ADD MORE STORAGE

- Add baskets to hold frequently used toys and blankets.
- Add shelving for video games, DVDs and other media that is prone to sitting out in the open.
- Look for furniture/storage combos such as storage ottomans and trunks to store anything you don't want out in the open. There are even some couches and loungers that double as storage.
- Add other furniture that doubles as storage space such as a credenza below the TV or a behind-the-couch chest.

UN-DECORATE

It is possible you simply have too many things in your family room or living room, which is making it feel cluttered and overcrowded?

Try pruning back the pillows, hanging pictures and adding floating shelves to the walls to remove pictures or collectables that are crowding your table tops.

DONATE OR SELL

Address your books, CDs, DVDs and other entertainment by donating or selling anything that is no longer a staple in your collection. You can convert your music and movies to digital format to free up a lot of valuable real estate.

Get rid of any broken or unused toys, tchotchkes, remote controls and anything else that has lost its usefulness.

WRANGLE THE WIRES

A mess of wires from your entertainment centre is an eyesore that adds visual clutter.

There are countless products these days to help you tie up and hide your cables, but here are a few other tips for cord management:

- Use cords and cables that aren't excessively long – you don't want to have to tie up 20 feet of coaxial cable!
- Choose furniture that will cover up the cords if you don't want to go to the trouble of feeding them into the wall.
- Store your mess of cords in a container that matches your room décor.
- You may also be able to conceal some cords around your room with an area rug. There's no getting rid of the cords in most cases, so we're OK with hiding them in clever ways!

After you finish decluttering your family room and/or living room, sit down in your new Zen den after a long day!

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MAXIMUM LOAN THROUGH SME (SMALL-MEDIUM ENTERPRISE) SCHEME QUADRUPLED

The Federal government has announced both the extension of the Coronavirus SME guarantee scheme and a series of "key changes" to the initiative.

The initial phase of the scheme remains available for new loans issued by eligible lenders until 30th September 2020, while the second will run from 1st October 2020 to 30th June 2021.

Loans will not be limited to the sole purpose of working capital, and their maximum size will increase from $250 000 to $1m, with loan terms rising from three to five years.

PHASE 1 | PHASE 2

J O J A J

30 SEP 2020

30 JUN 2021

MAXIMUM LOAN AMOUNT INCREASED

$250,000 TO $1M

LOAN LENGTH ALSO INCREASING

3 YRS TO 5 YRS

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PERTH REAL ESTATE: LAND BUYERS FLOCK TO CITY OF SWAN

BUYERS looking to build a new home flocked to the City of Swan for land in the June quarter 2020, with Vale, Ellenbrook and Brabham the top three areas for sales activity.

The region saw the highest number of sales for any local government area, with just over 1000 lots sold during the three months for an average price of $228,000, according to the UDIA WA.

The City of Wanneroo was the next most popular region with 800 sales at an average price of $215,000.

Land sales surged across Perth during the quarter, reaching the highest levels seen since the UDIA began its land market survey in 1990.

There were 3322 lots sold, a 126% increase on the 1999 sold in the March quarter.

CITY OF SWAN	CITY OF WANNEROO
1000 SALES	800 SALES
$228,000 AVERAGE PRICE	$215,000 AVERAGE PRICE

- PERTH NOW -

APPLY NOW

HOME LOANS

BUSINESS LOANS

CAR AND EQUIPMENT LOANS

INTEREST RATES

PRINCIPAL & INTEREST

2.59%

VARIABLE RATE

*CONDITIONS APPLY

COMPARISON RATE

2.62%

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.

HAYNE GOT IT WRONG: COMMITTEE CHAIR BACKS STATUS QUO

Commissioner Kenneth Hayne's recommendation to overhaul the broker remuneration model missed the mark, according to the chair of the House of Representatives' standing committee on economics.

In June, the House of Representatives standing committee on economics announced that it would scrutinise the mortgage broking sector in a new hearing, which forms part of its ongoing review of Australia's financial institutions.

The hearing commenced, with the Mortgage & Finance Association of Australia (MFAA) and the Finance Brokers Association of Australia (FBAA) fronting the committee to discuss recent regulatory developments in the broking industry.

Tim Wilson, Liberal MP and chair of the committee, opened questioning by revealing that in his view, recommendations handed down by commissioner Kenneth Hayne in the final report of the banking royal commission to scrap commission-based remuneration in the broking industry were off the mark.

Before enquiring about the industry's position on commissions, Mr Wilson said: "I actually think Hayne got it wrong on mortgage brokers and trailing commissions."

In response, MFAA CEO Mike Felton pointed to findings from previous inquiries conducted by the Australian Securities and Investments Commission (ASIC) and Treasury, noting

> *the utility of trail commissions as a "controlling mechanism", which has "stood the industry in good stead" and "improved customer outcomes".*

> *"ASIC reviewed our industry in great detail and did not recommend that trail commission be banned," he said.*

"They did not find it directly leading to poor outcomes and, in fact, they went as far as to say that trail incentivises higher quality loans.

"A similar sentiment was expressed by Treasury, saying that conflicts in the absence of trail and clawback would be worsened, again highlighting the control mechanism that exists within trail."

Citing data collected by Deloitte Access Economics and CoreLogic, Mr Felton added that with trail comprising of approximately 50 per cent of a mortgage broker's income.

"Removing 50 per cent of that income in the abolition of trail – if it was not topped up into upfront – would not be a good outcome for our industry and would challenge the viability of the important mortgage broking industry that drives competition and access to credit," he said.

Representing the FBAA, David Carson, regulatory compliance specialist at Compliance One, echoed Mr Felton's sentiment.

Mr Carson said: "I'd agree with the chair on this also, we think the royal commission recommendations were not on point."

The federal government opted not to implement the banking royal commission's proposed ban on commission-based remuneration, instead announcing that Treasury would lead a review into broker remuneration in 2022.

- THE ADVISER -

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