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DOLLARS & SENSE

MORTGAGE SELECT AUSTRALIA PTY LTD

Hello once again,

Can you believe summer has passed and it's already April? I can't. I'm getting older faster and faster but I reckon if we're waking up in the morning then it's all OK.

So much has happened this last six months. What a roller coaster? Melbourne property market has boomed and at the same time the US has had a meltdown. Govt has changed and at the same time interest rates have gone berserk. Rents are climbing and people don't know whether this will push property prices up or whether they are coming down because of interest rate rises. Very confusing. Hopefully the articles following will make some sense of it all for you.

Mortgage Select has also had a tumultuous time with John moving on after three years and being replaced by Patriciah Opio. We miss John and wish him all the best and are extremely fortunate to have found Patriciah who used to be a Credit Assessor with ANZ. She really understands, from the banks point of view, what they are looking for which helps tremendously when packaging a submission. Mind you she is totally blown away to see what we do on the other side of the fence. She keeps saying, she had no idea from the brokers' side how demanding and how stressful the banks make it for us. We also hired a second Tanya as we promised to do last newsletter, her name is Vicky Maglio and she complements Tanya on a job share basis – Vicky is new to the industry and has been on a huge learning curve over the last 3 months. She is like a sponge, eager to learn and also with a wonderful attitude.

Beata, our Office Manager, was only supposed to be temporary but has also grown to enjoy the industry and the client base and is staying on. We are only too pleased to keep her. She has been calling for your birthdays so I expect by the next newsletter you will all have spoken with her.

We are blessed with a great team, who care for and respect both each other and the clients and we as always, thank you for your flowers, gifts, cards, testimonials and kind words of appreciation. Your acknowledgement truly means a lot and when it is shown by ways of a new referral we are highly complimented. Keep in touch, we will....

Judith Goorjian

SELF EMPLOYED BORROWERS

When applying for a loan please note that all 2007 company and personal tax returns and financials must be supplied for any full-doc laons. Many self-employed clients automatically send us a copy of their full returns (co & personal) as soon as they are done. This enables us to do a full assessment when you make loan enquiries.

FOR BASKETBALL FANS

Yippee !!! We are thrilled Brian Goorjian has accepted the position of Dragons Coach and will be returning to Melbourne after he has finished coaching the Boomers at the Olympics in Beijing. Many of you have asked or wondered whether Brian is related or in fact my spouse. He is my husband's elder brother. It will be great to have some family nearby once again after his 6 season stint in Sydney.

Once the Dragon's office is open after the current break I will look into purchasing tickets to offer to those of you who enjoy the games at Vodaphone Arena and deserve a reward for your regular referrals.

Watch out for details in October's newsletter.

Great goals are never achieved until you decide to dare to fail

The Sub-Prime Meltdown Simplified ! ! !

So many are trying to understand how the market has become such a mess in the USA? After all we all know that property is a low risk. Where did we coin the phrase **"*as safe as houses*"?** If I can be so bold as to offer my humble opinion and explanation of what has happened.

The USA brokers and lenders were really quite unbelievably stupid. In fact if they weren't stupid they were greedy.

Remember, there are 300 million people in the States as opposed to our measly 21 million and a fraction of them (under 1% of families) are in serious trouble and will most likely end up on the street.

Australia has had a wonderful 10 years with interest rates low globally which encouraged plenty of mortgage borrowing while it was possible for lower to middle income earners to borrow reasonable amounts at these terrifically low rates. It meant that they could afford to pay an extra $20K or $40K or more for their dream home and this has pushed property prices up.

In the USA they had such terms as 2 year honeymoons. For instance people could borrow on 7% interest which would jump to 12% in two years. You would think a lender would assess these people at 12% knowing that this would be the end result. Common sense dictates this. But no, these people were assessed at the lower rate. Not only this, but lenders were making it easier and easier for NINJA's to get money (No Income, No Job or Assets). Therefore you could borrow 100%, while being bankrupt and without a job. Pretty Dumb.

They figured, property prices were soaring so quickly that if people defaulted the lender could always sell the house and recoup their money. This they started to do until there were more and more houses on the market and the supply started to outstrip the demand and borrowers started to just hand the keys over to their lenders without a fight. It cost them nothing to get into the property and nothing to get out, except for a blackmark against their name which many already had.

In the meantime, these same lenders would package up a huge parcel of their mortgages and onsell them to investors such as those equivalent to our Super Fund Investors. Large corporations whose policies dictated that they could only invest in AA products such as mortgages on residential property.

As the default rate grew and properties in the USA started to drastically fall and no longer had a good ratio such as 60% mortgage, but turned instead to 100% or 120% mortgage compared to the value of the properties, the Funds were forced to re-rate the parcels of mortgage bonds to BBB. Here is the domino effect. Their policies stated they must only hold AA rated products and therefore the BBB parcels had to be sold off at whatever price they could get. This further compounded the already falling prices. Even in cases where sales did not have to happen, the Accounts of the corporations had to show the adjusted value of the assets they held at a much reduced price, dropping the value of the company and the shareholders share price. It became a falling spiral.

The positives are that a huge clean-out has occurred in the broking and lending market in the USA. We hope they have learnt some valuable lending lessons and we are nearing the peak of the worst of it (**we think**).

The two year honeymoon rates are due to end by August this year and those who cannot handle the jump in rate to 12% will then sell out or be forced out. The shakedown should start to end and things should start to stabilise. Of course, the falls are always far quicker and more dramatic than the rises which are punctuated with plateaus for months at a time and then tentative slow growth as people get back on their feet and begin to rebuild.

Is this likely to happen in Australia? We think not. Why? We have very strict lending practices and whether you like them or not they are enforced to protect all of us. Yes, we do lend 100%. Yes, we can lend to people with bad credit ratings? Yes, we can lend to people without verifying the income they state. However, these happen one at a time, not in unison. For instance, to borrow 100%, you must have strong and stable work background, income and a clean credit rating and the mortgage is highly insured. If you have a

"Borrow 50p? Sorry, I'm staying out of the sub-prime lending market."

bad credit rating, again your income is usually carefully assessed and your rate is higher from the start and assessed allowed for a buffer in case of potential rate hikes as well as smaller loans being offered. Likewise with low doc. If the lender cannot physically verify your income then the mortgage is insured if you borrow more than 60% of the property and maximum lend is usually 80% of the property. There are a whole variety of checks and balances in place to allow a small margin of error and Australia on the whole have a very low default rate (in general). At the many seminars and lectures with Chief Economist speakers which I must attend in order to keep up with my Continuing Compulsory Learning in the industry, the Australian economy, I'm told, is the envy of the globe.

However, to further ensure we stay this way there will naturally be a tightening of credit standards. I believe there will start to be a premium charged for Low doc, credit impaired and no deposit finance. The flow on impact to us, the public is higher price on funds and less liquidity.

For this reason, I believe it is a good time to release whatever equity possible, while values are strong and lending is still fairly assessed as it will become harder to borrow in the future. If the plan is to cash up ready for opportunities which WILL crop up, then get ready now. Be prepared and be sitting pretty ready for those who have pushed themselves to the brink and cannot handle that 4th investment property loan which they should not have taken in the first place. There are many clients I advised to hold back or to slow down over the last few years, simply because whilst they could squeeze into the criteria needed. I knew they were at a place whereby one glitch and the whole thing would fall over like a pack of cards. Yes, they have rung and thanked me and they have shown their appreciation through referring their friends and colleagues. We are all so much happier. I would rather see a couple, with Mum at home looking after the kids, where she wants to be, and comfortable with their three properties than having 4, 5 or 6 properties and going through the financial hardship and horrible stress of being forced to sell. Slow and steady as she goes just seems a better bet to me. Property is a long term strategy (unless you're in the business, such as RE Agents or developers) not a short term fix. So many people are not patient enough to handle the delayed gratification. Think carefully about why you purchased and what the goal was before you jump both in and out. If you need someone to bounce off feel free to give me a call.

Fixed – how long for?

For ten years I have talked about the pros and cons of fixing and then left the decision up to the client. I have tried to guide you as to **how** to look at the decision to help you make, what only hindsight will tell you, the wisest decision.

Now it seems more of a no-brainer than ever in the past. It used to be line-ball as rates fluctuated a bit up, a bit down, and hovered.

Now, for the first time in 12 years, the lenders have started to increase variable rates regardless of whether the Reserve Bank has moved. Scary times and they are expected to get scarier.

Due to the high cost of borrowing funds overseas the lenders are actually losing money on every new loan they write which is under the generic term "professional packages". Therefore, though they still make billions through other means, they are slowly squeezing up the rates bit by bit and this is predicted to continue for a year or more still. We do not know the time frames but can safely predict there will be more pain to come.

Those who I fixed in over the last few years have been ringing to thank me and I have not had a single phone call complaining that I didn't suggest a fixed loan or that I suggested NOT to fix. This is because I have always offered the option and discussed the pros and cons and then left the ultimate decision to the client. Phew !!!

It seems to me, and this is only MY OPINION, that three year fixed is pretty safe. With more rises on the way (regardless of the RBA) and the inevitable period of plateau before the RBA feels inflation is well enough under control, it will be a while before the rates start to drop. Even if this begins in a couple of years I believe it will take some time before they reduce below the specials we have available today. Some fixed rates are well over 9% and rising. They change weekly at present. YES, we have some specials on at the moment and I am struggling to contact all 800 of you so please, by all means, CALL us. 9091 4988. Looking forward to a chat.

Write to us at

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What should I expect after the loan is approved?

So often people don't really know what to expect from brokers so I thought it might be prudent to explain what is the industry norm? It is clear to most that a mortgage broker helps to analyse a whole range of products/lenders in the marketplace. Suggest the right structure for you on a personal case by case basis after considering your current and future plans and goals. Also pretty clear is the mortgage brokers' role in packaging and submitting the loan to the chosen lender who is both competitive and likely to be sympathetic and most compliant to your particular scenario and following it through to approval with whatever massaging and explanations are required along the way.

Once the loan is fully approved our role and our job is actually complete.

It is important to realise that anything which is supplied by your broker after this time is most definitely a bonus and is **an unpaid for EXTRA**.

- We, at a huge labour and time cost to our business, have chosen to follow through not only to settlement but **beyond** and this is unusual in the industry.
- We verify when documents are being done and let you know.
- We either pick up the documents are ask you to send/fax/scan them to us for checking to ensure they are correct before you attempt to sign them.
- We offer for you to come back into our office to assist with the completion of the documents.
- We set up your accounts and check on credit cards where appropriate.
- We verify the documents are returned and the bank has actually received them and confirm this with you.
- We check the bank has examined the documents and all is correct for settlement.

If you are refinancing, the outgoing bank has no interest in being efficient or effective in discharging your loan and the Discharge Depts at the banks are undermanned and difficult to deal with.

- We apply pressure to them on a daily basis to keep things moving. The new lender can call the outgoing lender every day for weeks until a settlement date is booked. Some banks have a pre-determined policy on discharges, such as NAB, who require a twenty business day (one month) lead time to book in a settlement.

Very often with a refinance there may be both a discharge administration fee as well as a penalty. All lenders have the first but the penalty is not in all cases. This is something we check with you from your first appointment with us. Some clients forget that they will have interest to pay on a refinance, which they would normally have paid, eg. They may settle 21 days into their month of loan cycle. The interest will be added to the total payout of the loan.

It is imperative that you realise, that whilst we are calling on your behalf daily, and in many cases hitting our head against a brick wall, the internal refinance between two lenders is not ultimately within our control and therefore the inefficiencies invariably displayed by the lenders are NOT our inefficiencies.

PLEASE DON'T SHOOT THE MESSENGER! ! !

We notify of settlement and we diarise to call you after 5 weeks to ensure that your first Direct Debit went through smoothly. We recognise that most teething problems are identified at this time and easily rectified and if necessary we can get any fees associated, rebated through our early detection.

Thank you to all of our happy customers who have shown us their appreciation.

New Investment Opportunities in Caulfield & E St Kilda

From time to time, an opportunity arises which we are happy to pass on to our client base. These are off-the-plan townhouses, one set in Caulfield North and one set in E St Kilda. Three level - $850K to $950K. They are not being marketed as yet through a Real Estate Agent. Permits are through however building has not commenced. There are therefore up to $100K savings in stamp duty and agent fees. To register your future interest please contact us by phone / fax / email. This way, once the full prospectus is available we can send it out to you for first choice. Of course, no obligation.