

## Finance becoming more available?

While undertaking the research for this latest newsletter it was interesting to read Tony Alexander's 15 April Weekly Overview in which he says after coming home from holiday on the Gold Coast *"it doesn't look like anything has changed with regard to where the NZ economy interest rates, exchange rate, house prices and the labour market are likely to go over the next couple of years. The data releases show sentiment levels remain high but that both businesses and consumers are still quite reluctant to spend."* To read Tony's Weekly Overview [click here](#)

I couldn't agree more. The mood here seems to be "it looks like we've escaped the worst of the global recession, but I'm not sure when things are going to get better".

With property a favourite investment, maybe everyone's waiting on the upcoming budget to reveal how it will be affected by the tax changes? Anecdotal evidence of slower sales in residential investment properties would support this view.

The good news is that finance does seem to be becoming more available. But as I said in my last GLOBAL UPDATE *"It's now becoming very clear there's a big distinction between the lending policies of the banks and other lenders."* If you haven't read it before [click here](#)

There was a great response to this newsletter and – dare I say it – enquiries put to both bank and non-bank lenders have received a good hearing.

The banks are looking at proposals, and coming up with the response we have come to expect. Each is analysed in great detail, including historical proof of debt servicing ability, strong property assets in good geographical locations (or strong businesses with a good profit history), and strong guarantors. If you can get the finance the interest rates are low and clients I've arranged money for have been delighted with the offers they've got.

While many of the traditional non-bank lenders – like South Canterbury Finance – are busy tidying up their own affairs, many seeking the extended Crown Retail Deposit Guarantee Scheme have now received it and are gradually coming back into the market.

However the difference in interest rates between banks and non-bank lenders has increased. This is partly due to how the lenders obtain their money, and the fact there are not nearly as many around as before. Mind you the spread is now more like what we would have expected prior to the times of cheap money and easy credit.

But when you analyse the actual "cash flow" servicing requirements between the banks – who are now demanding principle and interest payments – and the interest only non-bank lenders, the difference can be small.

I'm not against reducing debt. It's what everyone's trying to do now. But there's a period when you need some relief to take a breath and get tenants for your property, or more revenue for your business, so you can go back to the bank and renegotiate your loan arrangements.

The other advantage of moving to a non-bank lender is the isolation of the security required. As I've said many times before, in good times no one really cares – or even reads the fine detail of the loan agreement – about how banks wrap up all your assets through GSA's and cross collateralisation.

When it comes to partially re-financing bank loans you need to present a good case to do so. But let's not

forget they're under pressure to reduce their exposure to borrowers and it's not that hard to reach a solution that suits both parties. That's where I can help.

### **So what's happening offshore?**

Our lucky country neighbour Australia seems to be going from strength to strength and interest rates there are rising as their Reserve Bank recently raised the cash rate by another 0.25% to 4.25% - read minutes of meeting [here](#) This is the fifth rise since October 2009.

In the U.S. (where the madness of CDO's and CDF's are now the subject of litigation by authorities) and the U.K. and Europe (where everyone's arguing about the Greek debt) governments are struggling to keep their economies alive. The financial crisis in those countries has a long tail and we'll be hearing about the ramifications and solutions for a long time.

What's more interesting from a world point of view is what's happening in the new economies of China and India.

The Chinese economy enjoyed a remarkable 11.9% annual growth in the March quarter. Over the last 10 years it's grown at an average annual rate of over 10%. The question remains though as to whether a property bubble exists there or not.

Now China's state council is bringing in regulation to combat property speculation which includes specific deposit requirements and the ability for banks to refuse loans to buyers who own two or more properties. This follows data last week showing property prices in 70 of China's large and medium-sized cities rose 11.7% in March from a year earlier, the fastest pace since China began issuing the data in July 2005. To see article [click here](#)

What's really interesting about this is the specific nature of the Chinese regulations which are quite different from conventional measures like raising interest rates. This is part of a global trend towards more regulation.

In India the Reserve Bank increased interest rates in the wake of inflation in March reaching 9.9 % year to year, its fastest pace in 17 months. Economic growth is forecast at 8% - second only to China amongst the major economies.

India is one of the few Asia-Pacific countries that have started correcting loose monetary policy as advanced western nations, untouched by inflation, continue to maintain an easy stance to spur economic growth.

Asia has led the recovery in the global economy, but easy monetary policies of regional central banks have stoked consumer price pressures and ignited inflation in real estate and other asset prices.

Australia, Malaysia, and Vietnam have hiked interest rates. Others, including China and the Philippines, have increased efforts to soak up liquidity. Singapore last week conducted its most aggressive monetary tightening ever to keep a lid on prices.

To read an excellent article on world interest rates [click here](#)

### **Low point is now**

All in all it looks like monetary pressures will start to appear in our neck of the woods. And while New Zealand may be at the tail end of the queue, it's becoming clear interest rates here are at their low point now and it's only a matter of when they go up.

In the meantime strapped lenders are losing patience with borrowers who are not performing and demanding action or be sold up. This provides some excellent investment opportunities right now while interest rates are low. Come next spring I wouldn't be surprised if many of these have disappeared.

Cheers

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