

Residential Mortgage Market

Hi John,

I thought you might be interested in receiving my email newsletters, GLOBAL VIEW and GLOBAL UPDATE. Past issues are available on our website [here](#). You can unsubscribe from either or both at any time at the bottom of the newsletter.

With all that's happening in the finance industry at the moment, any GLOBAL VIEW I wrote now would be out of date before you got it. So right now I feel it's timely to send you a GLOBAL UPDATE on the state of the residential mortgage market and the home loans we have access to.

Here in New Zealand credit had already become a problem when our finance companies started to fail before the so called U.S. led sub-prime crisis. The first three to fail were in May-July 2006 but it wasn't until the biggy – Bridgecorp - hit the wall in July 2007 that the pack of cards really started coming down.

Previously just about anyone could arrange a loan for just about anything. Now the ability to raise money ranges from down right impossible (development with no pre-sales) to reasonably easy (low geared commercial building with strong tenancies).

Because residential loans were so easy to get, there may have been a perception out in the market that Global Pacific only arranged large loans for developments, subdivisions, farms, commercial and industrial buildings, larger residential holdings, and so on.

While that's our main business, we're a full spectrum finance broker and have always been active in residential mortgages - including owner occupier home loans, especially for the self employed. The normal range of loans is \$200,000 to \$2 million.

So because it affects just about all of us, let's look at what's been happening with residential loans since the credit crunch began.

- The global credit crisis has meant the end of cheap money and easy credit.
- As a result of the recent government guarantee of deposits announcement, you would expect to see funds flow back into the traditional banking sector. This could lead to renewed competition between banks for residential lending. We have already seen Kiwibank take advantage of its "New Zealand ownership" to aggressively market its home loans.
- The lowering of global interest rates as a result of the credit crisis points to a lowering of the Reserve Bank's cash rate here beginning with their review on the 23rd of October. This, coupled with the current easing of house prices, will lead to an increase in housing affordability and a boost to activity in the property market.
- The number of specialist residential brokers has dropped dramatically as they receive lower commissions – the BNZ has long withdrawn from using and paying residential brokers - and loan applications require more than just ticking a few boxes.
- Some non-bank lenders – including Bluestone, Property Finance Securities, Pioneer Mortgage Securities, Tasman Mortgages and Argosy – have withdrawn from the residential mortgage market completely.
- Some mainstream first tier lenders have withdrawn from certain sections of the residential mortgage market. For example ASB Bank and its subsidiary Sovereign Home Loans no longer make low-doc loans. The maximum loan-to-valuation ratio on all their other products will be 80%.

- Most of the traditional low-doc lenders have reduced their maximum loan-to-valuation ratios significantly – typically from 80% to 65%.
- Many other mainstream lenders – like New Zealand Guardian Trust and other trustee lenders – have ceased lending for the moment.
- It's becoming far more difficult for self employed people, or other borrowers without regular salaries or wages, to arrange mortgages on non income earning assets like their own home.
- Isolating the mortgage on your private residence from other business or property loans has become important at a time when lenders are becoming very nervous.

So expect raising a mortgage to buy or refinance a house to be more like it was 5-10 years ago with lower loan to valuation ratios and full disclosure of debt servicing ability.

Apart from banks there are other sources of residential mortgages – including non-bank and private lenders – some of whom will lend on second mortgage. These loans are often available with pre-paid interest. A number of these non-bank lenders specialise in loans to self employed borrowers and those that might be credit impaired.

Another advantage many non-bank lenders have is the lines of credit they provide exist for the term of the loan and are not reduced or withdrawn in difficult times - as sometimes banks are prone to do.

It's important to know where to place a loan proposal in these times – especially when bank and re-insurer mergers expose individual credit limits or cross guarantees that neither the lender or the borrower would be happy with.

Cheers

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