



We Live In Interesting Times



Rod Templeton – Chief Executive of Mortgage Link

House prices have reached a plateau after a period of sustainable growth during the past few years. As we move from a seller's market to a buyer's market, it's important to remember that over time property prices keep pace with inflation. This means that value is maintained and property remains a good investment.

One benefit of the current correction is that homes are becoming more affordable, especially for young people who have found it difficult to get into their first home in recent times.

The property market is a major talking point as the new year unfolds.

Because we are still in a period of strong wage growth coupled with low unemployment first home-owners can be confident that they will be able to afford a mortgage. Mortgage Link advisers are advising first home buyers they should look to save as much as possible for a deposit. Don't be afraid to approach Mum and Dad for a loan or a gifted deposit – often they are willing but just need to be asked.

Buyers at all levels of the market should be talking to brokers about getting a loan pre-approved. By doing this you will know how much you can spend, and if you do find the home you want you will be in a stronger position to negotiate.

We are also seeing strong net-migration into regional areas, e.g. Marlborough and the Waikato, which can help to maintain prices. It's useful to bear in mind that trends in the big

cities don't always have the same impact in regional areas.

Unfortunately, there is no interest rates crystal ball but in the short term we don't see any major reductions. A softening housing market will keep the Reserve Bank happy and reduce the need for an increase in the Official Cash Rate (which drives interest rates), but overseas pressures such as the global credit squeeze may still force rates up.

The gap between fixed and floating rates has narrowed recently. This can make the floating rate more attractive to borrowers, especially those who are able to afford payments greater than those necessary under fixed term loans.

We are aware that circumstances can change quickly and some people may have trouble meeting repayments. If you find yourself in this position, it's important to talk to your broker early about your options. These might include: government assistance, debt consolidation, repayment holidays or paying interest only. By keeping in control of the situation, a more positive outcome is likely.

At Mortgage Link we believe our clients will need expert advice no matter what the state of the market. Remember, despite the media's real estate fixation at present, it's not all doom and gloom and opportunity still abounds.

Once you've found your
new home,
who does the rest?

Finding your new home is just the start. Getting finance and knowing how to make it fit with your life (and your plans) is the next stage. But relax, with us it's not difficult. We can help you to work out what you can afford, assist you to find the most appropriate deal, with the right loan, term and conditions.
Phone 0800 466 784 or see contact details on back page. www.mortgagelink.co.nz

Why US ‘sub-prime crisis’ affects NZ home-owners

The US “sub-prime crisis” is not the sole driver of the global credit squeeze, but it is a key driver of it and the match that lit the fuse.

Fundamentally, the problem has stemmed from lending money to people who had a high probability of default. As interest rates rose in the US from 2004 onwards, the housing market slowed. To combat reduced demand some mortgage companies relaxed credit standards, which meant weaker loan quality in the subprime market.

Most mortgage loans in the US get securitized, that is, bundled up into mortgage-backed securities such as bonds. As sub-prime mortgage defaults grew, the value of sub-prime securities started to fall.

What looked initially like a problem confined to just the sub-prime mortgage market has spread quickly to infect the entire US credit and banking system and spilled over to impact on other countries.

One of the benefits of securitization – the packaging of risk into smaller pieces and spreading it around (diversification) – has become an Achilles heel. Because losses are popping up in unexpected places and rife among the main US financial institutions, distrust has been growing.

Institutions have become increasingly reluctant to lend to one another, so credit has become harder to obtain and lenders are charging large risk premiums. No-one wants to be caught lending money to an institution that fails and is unable to repay the money. Credit markets are the oil in the cogs of economies, but the works are becoming gummed up.

New Zealand relies on being able to borrow money from other countries in order to meet demand. New Zealand’s internal savings are not enough to meet loan demand (to rely solely on domestic funding, interest rates would have to be considerably higher in order to reduce lending demand enough and stimulate savings enough so that they both meet in the middle).

The cost of borrowing money in overseas markets is, however, being driven up by the higher risk premiums lenders want to be paid for compensation of the added risk they perceive they are taking. Even though NZ banks are sound and have good credit ratings, unfortunately lenders are not being that discriminating! Globally, banks and corporates are all paying higher risk premiums for funds they obtain.

Mortgage rates are likely to remain high in the next few months. The inflation environment is still worrying the Reserve Bank enough that it is unlikely to start slashing rates in the short term. Global credit markets remain very wobbly, and the key immediate risk is that further wobbles trigger even higher global funding costs. Mortgage rates have already risen in New Zealand this year for that very reason.

• Our thanks to Nick Tuffley, ASB’s Chief Economist, for help with this article.

WHY US CREDIT CRISIS HITS NZ INTEREST RATES

There may not seem much connection between a wave of property repossessions in a poor working class city like Cleveland, Ohio, and rising interest rates in New Zealand.

But the link is real because of a change in the way banks do business, which has helped fuel a global credit crisis. In the past banks almost exclusively financed mortgage lending through the deposits they received from their customers.

In recent years, they have moved to a new model where they sell on the mortgages to the bond markets, who have allowed sub-prime lending to borrowers with poor credit histories. The practice has spread like wildfire throughout the US.

Many of these borrowers have not realised that after two years, their mortgages would be reset at double the original interest rate. The result has been a wave of repossessions with some predictions that as many as two million families will lose their homes.

The credit markets woke up to the fact that the mortgage-backed securities they were being sold by banks were riskier than they had realised. So they stopped buying them, unless they were backed by the government, causing the supply of mortgages to dry up. The result is that many banks are unable to originate mortgages, so there has been a sharp tightening of credit all round.

The sub-prime mortgage crisis has resulted in the first drop in US house prices since the 1930s, a glut of unsold homes, builders forced out of business and a flow-on effect to sectors such as appliances and DIY.

With the squeeze on the wholesale bond market, US banks are now making it harder for people to borrow while banks in other parts of the world, including New Zealand, are forced to pay more for money, impacting on domestic interest rates.



Co-buying a new trend

Friends, family members or flatmates clubbing together to buy a property is an option that is becoming more popular in New Zealand, especially in cities where it is difficult for single buyers to gain a foothold.

Already popular in the United States and starting to catch on across Europe,

shared ownership’s major advantage is allowing people to pool their resources – both incomes and savings – so they can buy what they wouldn’t be able to afford on their own.

Loan repayments and other property outgoings, such as rates and insurance, can also be shared and over time the



Caption for photo to go here

A former Taupo tree feller has exchanged ladders for lattes as he embarks on a new career path – thanks to Mortgage Link.

The physical demands of owning a tree felling business were beginning to concern Jason King, as he did not want to be doing the same job in 10 years time. So with his partner Andrea Casey, a former florist and professional gardener, Jason moved quickly when a well-established café in the town centre was up for sale.

“Glenn Yorke (from Mortgage Link Taupo) had previously arranged the finance for us

New venture excites Taupo couple

when we were buying a house, and a new car eight months later,” Andrea said.

Jason said, “Prior to securing the house purchase I had approached three banks and been laughed at, and upon asking our lawyer to cancel the contract she suggested we first contact Mortgage Link.

“We filled in the loan application and Glenn did the rest, so I’ll never go back to another bank for a loan again!”

Glenn said that with the good equity the couple had in their home, he was able to secure a loan, which was arranged with minimum fuss so that the couple could put in a bid for the Towngate café.

Once the sale was finalised the couple spruced up their new business and began a fresh chapter in their lives. “It

parties will be accumulating wealth that they would not have been able to achieve alone.

Craig Seton, five-times NZMBA Broker of the Year Central North Island, says it’s imperative that all parties get good legal advice early. A property agreement must be drawn up to cover all possible events in the future ... things like ‘What happens if one party wants out?’. The agreement should also spell out each person’s contribution (deposit, payment of outgoings) and also in the event of a falling out, make it clear what everyone is entitled to.

He says sometimes the old saying “Never do business with friends and family” can hold true. A clear agreement at the outset will help when plans change but when it comes to money we often don’t see ‘eye to eye’. If a property is purchased with very little or no deposit, its abrupt sale may result in no or even negative equity.

Shared or fractional ownership can also be done to gain access to a hassle-free holiday home. After purchasing a quarter or 10th of the property, for example, you pay a yearly fee to a management company to cover maintenance, letting and other costs.

Opportunities abound in popular holiday destinations such as Queenstown, Wanaka and the Coromandel. Once again, legal advice is essential to ensure that all aspects of the agreement are looked at in depth.

Need to refinance, consolidate debts, get a top up maybe?

Finding your new home is just the start. Getting finance and knowing how to make it fit with your life (and your plans) is the next stage. But relax, with us it’s not difficult. We can help you to work out what you can afford, assist you to find the most appropriate deal, with the right rate, term and conditions.

Phone 0800 466 784 or see contact details on back page. www.mortgagelink.co.nz

HELPING HAND FOR A WAR VETERAN



Charles Bishop goes over some details with Derek Hughes of Mortgage Link Kapiti.

Age is never a barrier to dealing with Mortgage Link – just ask 84-year-old Charles Gibson, who has recently moved into a new house in Levin.

Charles, a former British Naval officer and marine engineer, suffered a major financial setback three years ago. Through court action he managed to get some of his money back but he was struggling to move from a rented property in Paraparaumu back into a home of his own.

Charles had previously owned his own home since he and his wife settled in New Zealand after World War II. His wife died many years ago and his own ill health forced him to move from Great Barrier Island so that he could have an operation on his leg.

Charles was referred to Derek Hughes, from Mortgage Link Kapiti, by his solicitor, John West. Derek became one of Charles's most loyal supporters during a long-running legal battle. Once the case was decided Charles engaged a real estate company to find a two-bedroom cottage near Levin.

Derek arranged an equity release home loan, using the recovered funds to borrow money, which will be repaid at the time of death or when the property is sold. It was the only way that Charles could be financed into his own property. "Charles didn't have anywhere else to turn and this type of loan is enabling him to fulfil his dream of getting back into his own house," Derek says.

Now Charles is happily settled with his border collie and two cats. He has some home help to take care of the housework and is looking forward to having surgery so that he can enjoy some walks on the nearby beach with his dog.

"I'm grateful to all the people who've helped me get back on my feet," Charles says. "It's been three years of hell but I'm lucky some people have come to my aid, especially my solicitor, John West, who worked on my case 'pro-bono' for nearly two years and Derek who was very professional throughout."

EQUITY RELEASE AIDS RETIREES

Retired Kiwis who are income poor now have the option of using their property to borrow money to provide a better lifestyle.

The concept is known as equity release or a reverse mortgage – using a house as equity to free up money, which is repaid at the time of death or when the property is sold.

New Zealanders often go into retirement "asset rich cash poor." While national superannuation covers basic expenses, unforeseen costs such as surgery may put serious pressure on the budget.

Equity release is a common practice in the UK and US. The crucial requirement is to get professional advice such as from a Mortgage Link broker and/or your lawyer and consult family members.

A recent Australian survey of over-60s has revealed widespread fear about reverse mortgages. Among misconceptions were that seniors could lose their pension benefits if they took out one.

More than a quarter of respondents wrongly believed that a reverse mortgage involved selling a portion of the house to the bank in exchange for money, or that the loan involved compulsory repayments until the borrower died.

In New Zealand, Retirement Commissioner Diana Crossan urges people to do their homework before committing themselves to an equity release plan. Issues to consider include: the different types of equity release, set-up costs and the likely total cost of the loan. The commission has a website that is a valuable starting point – www.sorted.org.nz

RENTAL RETURNS BY REGION

Interested in or own residential investment property? The table below shows the average rental returns for the period July to December 2005.

REGION	2BRM FLAT	3BRM HOUSE
KAITAIA	\$160.00	\$185.00
WHANGAREI	\$200.00	\$235.00
TAKAPUNA	\$436.00	\$451.00
AUCKLAND CITY	\$379.00	\$484.00
AUCKLAND – REMUERA	\$344.00	\$519.00
AUCKLAND - WEST	\$260.00	\$306.00
HAMILTON CITY	\$190.00	\$283.00
TAUPO	\$178.00	\$242.00
ROTORUA	\$180.00	\$221.00
TAURANGA	\$206.00	\$268.00
GISBORNE	\$155.00	\$212.00
NAPIER	\$192.00	\$268.00
NEW PLYMOUTH	\$178.00	\$258.00
WANGANUI	\$130.00	\$175.00
PALMERSTON NORTH	\$168.00	\$247.00
MASTERTON	\$136.00	\$177.00
KAPITI	\$196.00	\$261.00
UPPER HUTT	\$166.00	\$269.00
WELLINGTON CITY	\$324.00	\$418.00
BLenheim	\$194.00	\$261.00
NELSON	\$197.00	\$270.00
WEST COAST	\$146.00	\$173.00
CHRISTCHURCH CITY	\$218.00	\$257.00
TIMARU	\$137.00	\$191.00
QUEENSTOWN	\$263.00	\$329.00
DUNEDIN	\$195.00	\$242.00
INVERCARGILL	\$128.00	\$176.00

COURTESY OF THE NEW ZEALAND PROPERTY MAGAZINE

For those with residential investment property check out www.nzpif.org.nz for your local New Zealand Property Investment Federation meeting venues. These meetings are typically run bi-monthly and focus in on a huge and varied range of topics relative to owning, managing and maintaining your investment property and your financial portfolio. Their annual conference is in Wellington on the 13 – 15th October, check the website for further details or talk to your Mortgage Link broker for more details.

