



# GFC – “The Sequel”

How would New Zealand’s financial system stand up if things really did reach melting point on the international stage and we headed into Global Financial Crisis Part 2?

The good news is that our banking system is more resilient now than it was in 2008. Banks still rely on offshore funding for around a third of loans, though that proportion has been gradually reducing due to increased appetite to raise funds by way of local retail markets says Rod Templeton CEO of Mortgage Link.

In response to the GFC, banks increasingly started to borrow wholesale money for longer terms to reduce their dependence on short-term “hot” money.

These shifts mean that retail deposits account for a larger share of banks’ funding than they used to, and that wholesale funding is of longer terms. As a result, banks are less vulnerable now to global credit markets freezing than they were back in 2008/09.

“The New Zealand economy itself is also less vulnerable. In 2008, New Zealand was a world leader in recession, with the economy already in recession from the start of the year so less able to withstand the global meltdown. This time we are gaining momentum. We have increasingly become more intertwined with Asia and the relative importance of the US and Europe to our exports is gradually falling”; notes Nick Tuffley, ASB Chief Economist

Assuming the world avoids GFC Part 2, the main economic issue for New Zealand will be how well Asia holds up. The long-term prospects for Asia are sustained strong growth – and consequently demand for our exports should remain strong.

The US tragi-comedy has ended

messily. Although the official debt ceiling has been raised (legally permitting the US Treasury to borrow more money), Standard and Poors downgraded the US long-term debt credit rating to AA+ from AAA. That new rating is the same as New Zealand’s, and two other rating agencies have reaffirmed their AAA ratings. But the move, when markets were already jittery, triggered a sea of red ink on global stock markets.

“We think GFC Part 2 is unlikely, as the problems being grappled with are well known, as are the solutions”, says Tuffley.

But bouts of market concern are likely to remain a feature of life – recent events are about the fifth round since early 2010 (though the most serious one).

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# Where to from here for interest rates?

Up until the recent global financial upheaval, there was arguably negligible difference between fixing or floating your mortgage.

But clearly the situation around interest rates has changed rapidly.

Only a few weeks ago the OCR was set to increase by the end of the year, and interest rates were tipped to rise.

But now global risks reduce the odds of immediate Reserve Bank rate hikes.

“Recent events are a firm reminder that the global economy faces numerous years of hard slog and slow growth to heal itself. In this environment interest rates are not going to be heading up overly aggressively,” Cameron Bagrie, ANZ’s chief economist says.

“I think people were too sanguine on the global economy a few weeks ago not realising the challenges ahead. Financial crises healing processes are not one, two or three year affairs. Reality appears to have set in.”

“Over time interest rates will need to move up, but not aggressively”.

“This does not mean there is no value in fixing. It provides certainty. However, in a de-leveraging environment globally, the investors and savers will hold the upper hand. They want to be compensated more for their money so there is now more of a term premium meaning that longer-dated yields have to be higher than short-dated equivalents. This is a structural shift and will see the average cost of fixing above floating.”

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## Home owners looking for certainty

The housing market is picking up in Gisborne with increasing mortgage enquiry, according to registered mortgage adviser Lindy Neilson.

“It’s getting a lot busier and many clients are wanting to get certainty around their mortgage rates. We’re sitting down with clients and talking about their future goals over the next one to five years. Often it means that this will require some restructuring now so we can work towards achieving these future goals”

Lindy says that some clients are opting to keep part of their home loan on a floating rate, fixing the balance for 18 months to two years.

She says clients still like floating rates because of the flexibility they offer.

Lindy advises clients to regularly review their home loan to gauge whether restructuring would be beneficial. Key questions she always asks include:

- Do you have plans to travel?
- Are you planning to have a family in the next one to five years?
- Are you likely to change job?
- Is there likely to be any increase/decrease in what you are earning?
- Do you plan to buy further properties?

“The answers to these questions help us to tailor a home loan package to suit – there is no one size fits all. I suggest to people that, if they are on a fixed rate, they review the mortgage whenever the fixed rate period ends”.

## KiwiSaver a boost for home buyers

Home buyers who have contributed to KiwiSaver for a minimum of three years may be able to withdraw savings to help buy their first home.

Brent Jaslarz, a registered financial adviser from Mortgage Link’s Manawatu office, says people are increasingly aware that they can use their KiwiSaver for a deposit.

“There’s definitely a change from 12 months ago and we have a lot more clients that use KiwiSaver as part of or all their deposit. Obviously there is still lending criteria to satisfy, as the deposit from most KiwiSaver clients will be less than 15 per cent, so we recommend finance pre-approval first.”

Brent says that in some cases, they may also qualify for a Housing New Zealand deposit subsidy, which currently stands at \$1000 for every qualifying year of KiwiSaver.

There is a set criteria for this deposit funding and it applies to:

- First home buyers who will be living in the house for not less than six months.
- Buyers who have previously owned a home may sometimes qualify.
- Can be used to buy land to build a new house, but must be built on and code compliance issued within a year. There are also value limitations on the build costs.
- Income limitations.
- The funding cannot be used for investment properties.
- The amount that can be withdrawn from KiwiSaver varies and is dependent on the contributions made to date.

Let us take the hassle out of it and help you as we understand the process and it is achievable.

Please talk to your local Mortgage Link adviser about your home loan requirements.

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