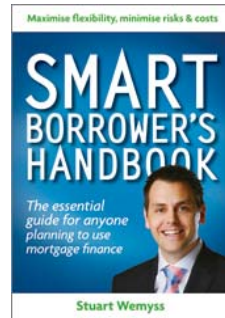


April 2008 Newsletter

Smart Borrowers Handbook 10% discount ends this Thursday

Take up your last chance to purchase Stuart's new book (Smart Borrowers Handbook) at a 10% discount. The offer ends this Thursday. Please visit www.smartborrower.com.au and use discount code 8007.

Existing clients receive a 15% discount—email Danni for the code. (dmitkov@prosolution.com.au)



The book should be appearing in all major bookstores this month. The recommended retail price is \$29.95.

It's time for the Federal government and the Reserve Bank of Australia (RBA) to intervene similar to the US Federal Reserve. The RBA could ease the liquidity crisis by offering lenders an alternative source to fund their mortgages. This will give smaller lenders access to lower cost funds and help them survive the 'credit crisis'. The US has government sponsored enterprises like Fannie Mae and Freddie Mac which assist in providing funds to mortgage lenders. Andrew Cornell (in the Australia Financial Review on 31 March 2008) suggested that the Federal government establish Aussie Mac, an Australian government sponsored mortgage funder. Aussie Mac could help fund smaller lenders and mortgage managers so that their position in the marketplace is preserved. For example, the Future Fund currently has over \$37 billion in cash holdings. The government couple invest some of this money in Australian mortgages via Aussie Mac in an effort to preserve mortgage market competition.

Unwinding 15 years of strong competition... Calling the Federal government in action!

15 years of strong competition in the Australian mortgage market could be evaporating as more and more borrowers feel driven back to the "safety" of the big 4 lenders but this will come at a cost. We could be heading back to the pre "Aussie Home Loan" days where the big banks were making twice as much profit on a home loan than they are today.

Lenders that cannot fund their home loans from taking deposits are struggling to compete in an environment of spiralling funding costs. Smaller lenders are now approving new mortgages at break-even or sometimes at a loss. This cannot go on forever and either these smaller lenders will close their doors (like Macquarie and RAMS) or have to increase rates and become uncompetitive. Either way, more market share power is being handed back to the big 5 banks.

There has been suggestion that the Big 4 banks market share has increased from 80% to 85% over the past 6 months. In addition, we've seen discounting pressure abate in the past few months (i.e. big lenders are not as keen to approve non-standard discounts). We haven't seen this for many years. These are strong signs that competition in the home loan market is drying up.

If the 'credit crisis' continues, we risk returning back to the days before Aussie Home Loans and Wizard where the average margin on a home loan was 4% - more than double the margin in the last 10 years.

Some people are against government intervention in the marketplace and prefer to allow market forces to deal with the supply and demand issue. However, this "intervention" is not vastly different to the action the Federal government took in the 1980's when they started deregulating the banking industry. They did this with the sole aim of increasing competition and it worked.

Action by the Federal government today will hopefully preserve the competitive mortgage market that they created through deregulation. Instead of "bank bashing", it might be far more



constructive for the Federal government to take a pro-active role in assisting Australian home owners. Waiting for the "market" to rectify itself is fraught with danger because the "crisis" might

last longer than expected and the smaller lenders might not survive. This might lead to higher mortgage costs and therefore add to the already tight housing affordability crisis.

Interest Rate Advisory Note

We have updated our interest rate advisory note today to take into account the comments made by the RBA last week and the change in market expectation.

Click here to download the updated note.

Visit: www.prosolution.com.au/IRAN.pdf

National Property Outlook

Continuing low housing affordability and upward pressure on interest rates are likely to be the key influences on national housing markets throughout 2008. Federal Government management of the economic issues and monetary policy direction as they affect the residential market will also impact on the activity of both home buyers and investors.

Unless we see a major economic downturn, there should be price increases - albeit at a slower pace - in most capital cities as growing demand continues to outstrip supply. With skilled overseas migration forecast to increase across 2008 and continuing strong inter-state migration into selected states, this stock shortage is likely to apply further price pressures to the established housing sectors.

2007 saw markets such as Sydney, Perth and Darwin reach affordability peaks and begin to stall as a result. These markets are now likely to show steady, but much slower price increases across 2008. We now have entrenched multi-layered and multi-speed housing markets and in 2008 each of these sectors will

react in different ways. For instance, if a short-term levelling off of investment in resources industries – as predicted by the major banking groups - comes about towards the end of 2008 as this sector reaches a cyclical peak, price growth in resource-driven property markets such as Perth, Darwin and Adelaide, may decline or show only minimal growth.

By the end of 2007, an all-time low rental vacancy rate of 1.9%, according to Real Estate Institute of Australia (REIA) data, across Australia had persisted for two and a half years. The national vacancy rate is likely to remain at these levels in 2008.

Property investors were slow to enter the market in 2007 largely due to rising interest rates and falling affordability. Investors also adopted a “wait and see” approach to the new Federal Government’s management of economic issues and monetary policy direction. However, there may be an increase in investor activity in prime capital city markets in 2008 as rental yields and capital values remain high.

Provided by Wakelin Property Advisory. For more information call (03) 9859 9595, email info@wakelin.com.au or visit www.wakelin.com.au.

Keeping Score... How much lenders have increased rates



Since the beginning of 2008, many banks have increased their variable interest rates independently from any movements by the RBA. Lenders have attributed the reasons for these increase to an increase in ‘cost of funds’ caused by the US sub-prime liquidity crisis. This “cost” is often measured by the spread between the RBA Cash Rate and the 90 day bank bill rate.

Current 90 day bank bill rate	7.85%
Current RBA Cash Rate	<u>7.25%</u>
Current Spread	0.60%

Before the US sub-prime issues, the average spread was as small as 0.15%. Therefore, **lenders ‘cost have funds’ have increase by 0.45%** (as a rough estimate). The spread has been as high as 0.80% over the past three months.

Just to refresh your mind, the majors have increased rates by the following margins:

■ CBA:	0.37%
■ Westpac:	0.30%
■ NAB:	0.29%
■ ANZ:	0.30%
■ St George:	0.40%

Therefore, based on current rates, lenders have passed on the majority of rate increases to customers. However, as noted above, the spread has been higher than 0.45% as times. In addition, the higher wholesale rates have persisted for a lot longer than most people have expected. Given the quantum of the increase in ‘cost of funds’, I believe that it was fair to pass some of this cost on. However, I now hope it’s getting close to the end of the increases., assuming the ‘cost of funds’ stabilise.

Our Best Rates

Basic variable	8.74%
Offset (> \$700k)	8.56% (0.80% ongoing disc.)
Offset (> \$1 million)	8.51% (0.85% ongoing disc.)
Offset (> \$1.35 million)	8.46% (0.90% ongoing disc.)
3 years fixed	8.69%
5 years fixed	8.59%
10 Years	8.75%

Rates current as at 7/4/08 and are subject to change without notice. Standard lenders terms and conditions apply. Comparison rates are available upon request.

Investment Property Seminar

Our next joint investment property seminar with Wakelin Property Advisory will be held on Saturday 19 April at 2pm. Call Wakelin on (03) 9859 9595 to book (Melbourne only).