

PAYING CAPITAL GAINS FORWARD IS CREATING THE NEW ECONOMIC POOR

CAPITAL GAINS FINANCED BY THE COMMBANK OVER 4 YEARS IS ASTOUNDING !

	START 01/01/21 Bank Value 100%	End Year 1 2021 Bank Value 100%	End Year 2 2022 Bank Value 100%	End Year 3 2023 Bank Value 100%	End Year 4 2024 Bank Value 100%
SELLING PRICE 1 JAN EACH YEAR	\$500,000	\$500,000	\$530,000	\$561,800	\$595,508
ANNUAL PRICE INCREASE 6.00%		\$30,000	\$31,800	\$33,708	\$35,730
NEW SALE PRICE		\$530,000	\$561,800	\$595,508	\$631,238
Maximum loan 80% without LMI	\$400,000	\$424,000	\$449,440	\$476,406	\$504,991
PRICE INCREASE IN 4 YEARS (CAPITAL GAIN)	0.00%	6.00%	12.36%	19.10%	26.25%
Deposit required	\$100,000	\$106,000	\$112,360	\$119,102	\$126,248
LOAN REQUIRED	\$400,000	\$424,000	\$449,440	\$476,406	\$504,991
	millions	millions	millions	millions	millions
COMMBANK TOTAL MORTGAGE LOANS.	\$485,795	\$516,217	\$556,499	\$583,827	\$596,346
Mortgage loans yearly increase.		\$30,422	\$70,704	\$98,032	\$110,551
PERCENTAGE INCREASE COMPOUNDED		6.26%	14.55%	20.18%	22.76%

NOTE : The total CAPITAL GAINS FINANCED OVER A 4 YEAR PERIOD is \$110,551,000,000 that is a significant \$110.5 billion

THE SOLUTION

The chart compares the banks mortgage roll growth to house price increases over a 4 year period.
It should be noted that annual capital gains compound over time as compound interest does.
The Commonwealth banks mortgage roll has grown 22.76% over 4 years and aligns to house prices over the same period.

WE HAVE A BIG PROBLEM

Although the RBA targeted band for inflation is 2% to 3% banks valuations have exceeded 6% per annum and despite wages growth being flat over the 4 year period banks have relaxed their lending criteria knowing that should things go bad for the home buyer the Government guarantee or Lenders Mortgage insurance will pay the bank .
Banks irresponsibly provide pre approval for home loans that creates competition in the market place and drives prices upwards at no risk to the bank .

WE HAVE A BIGGER PROBLEM

The banks mortgage roll grows as it finances the capital gains of the previous owner which is **PAYING CAPITAL GAINS FORWARD**
Govt to authorise licensed valuers to issue valuation certificates to builders and developers of owner occupied homes
Upon presentation of the certificate a bank may loan up to 90% of the certified valuation and the Government will share the risk of any loss by default with the bank 50 : 50 and thereby removing the need for LMI insurance .
Houses must be owner occupied , not be in a flood zone and must be covered by building insurance .
Despite wages growth being flat over the 4 year period banks have been able to relax their internal lending criteria on the understanding that loans up to 80% LVR provide a buffer of 20% between house prices and the loan outstanding .

PROBLEM WITH LMI AND GOVERNMENT GUARANTEE : The bank continues to charge the home owner for risk that is removed by insurance ?