

LENDERS MORTGAGE INSURANCE drives house prices upward !

GOVERNMENT LOW DEPOSIT GUARANTEE drives house prices upward !

Business is based on risk for reward and as a banks risk of potential losses increases the risk component included in the interest charged to the mortgagee (the borrower ) increases proportionately to recover realised losses.

**The problem :** Lenders Mortgage Insurance and the Government low deposit scheme removes all risk of loss and enables the bank to relax lending policy and provide loans , based on a clients absolute maximum ability to repay the loan , in order to meet the market and support increased housing prices. Conversely a lender who provides the funds to pay for Lenders Mortgage Insurance to remove the banks risk of loss should be offered the banks absolute lowest interest rate as indicated by the banks 60% LVR interest rate .The reader should check with their bank if the lowest interest rate is applied to their loan as the LMI insurance removes the element of risk from the loan contract while the borrower continues to pay interest above the banks minimum advertised interest rate for loans with a 60% LVR ratio that also includes a loan impairment charge of around 1.60%.

The provision for losses ( loan impairment ) provided for in the Commonwealth Banks published accounts is in the order of 1.60% to 1.80% and is included in the banks base advertised interest rate for loans up to 60% LVR .

Loans above 80% LVR require LMI insurance and enables the bank to extend loans to 90% of the contracted sale price at no risk of loss to the bank despite interest rates include a charge for loan impairment as per the steps in advertised interest rates charged up to 80% LVR .

Lenders mortgage insurance removes the banks risk of doing business provided for in the banks published accounts and increases the banks profits. The banks like to make it clear that LMI insurance is for the term of the loan and only covers the banks losses but not the borrower who can be pursued by the insurer or the bank to recover any shortfall in recovery of the loan after the security property has been sold. That statement needs to be clarified as the borrower may only be pursued for a percentage of any shortfall as determined by the deposit ( Risk B )

**REFER TO NOTES REGARDING RISK .**

The banks risk may be quantified in dollar terms as the percentage charge for loan impairment and any loading provided for in the banks financial accounts that includes accrued interest and recovery costs. Benchmarked at 1.60% to 1.8% of the loan outstanding. Despite the risk component of the interest charge is removed from the loan contract the borrower continues to pay higher interest rates ?

The ACCC , ASIC and the RBA are content to turn a blind eye to this slight of hand that increases the banks profits. Perhaps LMI needs to be tested in the courts ? Why is LMI for the term of the loan when the insurers risk evaporates quickly when property prices rise and the loan principal reduces over time ?

That is interest rate gouging and is significantly more when related to financing investments in Rental properties .

Mortgage brokers promote get on the **PROPERTY LADDER** before it is too late.( That is financial duress )

The mortgage broker or the bank justifies the cost of LMI on the basis that the cost will potentially be offset by a predictable conservative rise in house prices going forward of 3% per annum .

For Example a \$600,000 house may rise \$18,000 in the first year and offset the cost of LMI insurance.

**The problem :** \$18,000 is added to the customers loan . The bank profit increases by charging interest above the 60% LVR base rate despite LMI removing all of the banks realised risk of loss for the term of the loan. In turn the interest adds to any negatively geared loss subsidised by the poor bloody renter who will not only pay the landlords interest but also state land tax and emergency services levy factored into the calculation of rent.

To add insult to injury the renters tax on his hard earned wages ( PAYG tax )will subsidise the losses made by the landlord. “Fair go mate” ! Westpac may need to review their fair go policy?

**The Government first home buyer scheme is flawed .** It reduces the requirement for a deposit from 20% to 5% and enables the bank to fund loans to first home buyers to 95% of the contracted sale price.

**And here is the problem :** The reduction in the deposit transfers the buyers **Risk B** to the banks **Risk A**

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5 The deposit ( the borrowers Risk B ) is reduced from 20% to 5% transferred to the bank and increases the increasing

the the loan to to the in the form of RISK A is replaced by increasing the banks loan to the borrower . The banks provision for realised losses is now 1.60% plus

5 which increases the banks risk of doing business to **22.80% wow !** ( refer over )

That excessive provision is to cover the banks for the risk of prices falling in the marketplace because they have extended loans to meet inflated prices in the the market place. That is not how business is done in a free market .

**Putting it Trumply :** The AUSTRALIAN BANKERS ASSOCIATION ( a cartel) the ACCC and the learned gentlemen running the BIG 4 Banks are a bunch of arse oles who are destroying the Aussie tradition “fair go mate” where everyone is given a fair go”

The banks are pinching the wages of many Aussies who are fearful that they will not be able to keep a roof over their head and will be out on the street.

### **AUSTRALIA 'S ECONOMY HAS A STAGE 4 TERMINAL CANCER**

**It is “ Negatively geared ( loss making ) investments in residential housing ”**

**Even the Prime minister and the Governor of the reserve bank support the scheme.**

**An extract from the Governor of the reserve bank's speech in response to a question after the 25 point reduction in the cash rate .**

It has taken many years to reach the current situation where housing is no longer affordable for many Aussies .

In the marketplace it is a combination of factors that effect price .

While shortage of supply is promoted as the problem that simply is not true.

No of apartments for sale in victoria is ?

supply is

The current situation in Australia and many other countries ( surprisingly Norway a socially responsible country also has a supply problem ) regarding house prices situation of including supply ....there are various reasons

attributed to

supply and demand but make no mistakes lenders mortgage is the root cause and valuation of proeetries needs to be addressede

**The solution :** a responsible Government is fiscally able to share the risk of doing business with the banks 50% each and thereby reducing the banks risk which is to be reflected in a reduced interest rate charged to the lender.

The loan contract with bank includes interest repayments that includes a charge for the banks of providing a loan to its customer. LMI insurance or the Government guarantee removes the banks risk that is an element of the loan contract.

Either the contract is amended and the charge for risk is removed from the contract or the contact is void ?

A responsible Government is fiscally able to provide a guarantee which will reduce the banks exposure to loss by 50% . To participate in the Government Guarantee scheme a bank must adopt a responsible lending policy and sign on to a code of conduct.

**Proposal :** The Government to share the risk of doing business with banks 50% each to provide loans to 95 % of a Valuation certificate issued by a Government certified valuer. Loans will be for the purchase of owner occupied new and established homes to a maximum certified valuation of \$ one million , subject to a code of conduct and the banks credit rules.

Property investment loans will also be Government guaranteed to a maximum 80 % LVR of a Valuation certificate to a maximum of \$ one million.  
 Lenders Mortgage Insurance will not be required.  
 Loans outside of these parameters will be subject to the banks lending policies and interest charges will reflect the risk taken by the bank.

**The Department of Treasury** needs to report on the costing of the solution which may well be adequately guaranteed by the HOUSING AFFORDABILITY FUND  
 Like the ACCC the heads of these government departments is to be held accountable.

The banks are manipulating the market with the aid of LMI insurance to drive prices upwards and creating the new economic poor. The big4banks operate as a cartel and are very bad corporate citizens. THE ACCC NEEDS TO TAKE NOTICE  
 .....continued

### A LITTLE ABOUT RISK FOR REWARD.

Like all enterprises Banks must compete with other banks in the market place to lend funds to customers at interest rates that attract customers . With Coles , Woolies and Aldi it is the price of groceries. Who can provide the best product and service at the best price and remain profitable is the key to success. The competition for business is also tempered by supply and demand. Recent extreme events in the tomato and egg industry have seen supply severely impacted resulting in higher prices. These fluctuations are generally short lived and prices over time return to normal.

**Not so with housing prices that do not return to normal !...paying capital gains forward.**

The Commonwealth Bank provides for losses in its profit and loss of 1.60% amortised across all interest bearing assets including home loans. That provision ( loan impairment ) has nothing to do with house prices but provides for losses caused by unexpected events such as unemployed , accident , illness etc whereby the client cannot repay the loan and the house has to be sold.

Banks will not provide a loan that is not protected by lenders mortgage insurance unless at least 20% of the sale price ( market price ) is paid as a deposit. That 20% is distinct from the 1.66% loan impairment and **that risk is born by the house buyer** and provides for house prices dropping in the market place. Together the bank has a margin of 21.60% between the contract price and the sale price of the security property to recover the loan, accrued interest and recovery costs before the bank will suffer a loss.

**The question must be asked :** With responsible lending the Commonwealth bank has a very small exposure to risk so why is lenders mortgage insurance required for loans of more than 80% of the contracted sale price of a property ?

**The answer :**

A responsible government can fund and share the risk of doing business with the banks 50 percent each.  
 Enabling banks to provide owner occupied loans to 90 % of Government certified valuations without LMI insurance.

and the  
 banks will help the home buyer meet the market provided LMI or the Government low deposit scheme removes

RIDE THE RAIL ..... READ ON THE RAIL ..... PASS TO ANOTHER RIDER NO 1

any risk to the bank .

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