Rigby's Rant

Unconscious Bias

Written by
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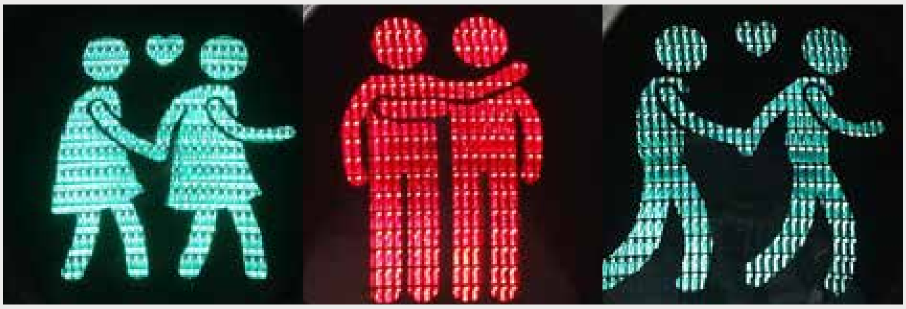
It seems that I have either mellowed in the last year or that the world is just improving around me and there has just been nothing to rant about.
Donald Trump springs to mind, then again I had promised to keep my rant sessions non-political and light hearted.



This one really got my "goat".

Melbourne CBD is about to trial some new traffic signals depicting "women stick figures" due to the pressure of a so called "lobby group" who believes that normal stick figures, which admittedly do look more manly than womanly, wait for it.... discriminate against women!

Well, I don't think I had ever thought about it that way before, as I stood at the corner of Swanston and Flinders.

Who in the hell is thinking about the stick man on the traffic lights while you're waiting to cross? Maybe we should spend more time thinking about how to stop the lunatic from running over 30 people at the same intersection, dealing with the "ice epidemic", concentrating on issues such as domestic violence or homelessness in Australian cities or even discrimination in the workplace... Real discrimination, not some sort of perceived, pretend discrimination!

Seriously, who thinks of these things? I'll tell you who.... A group called "The Committee for Melbourne" comprising of a bunch of businesses and community groups of Melbourne – according to an ABC News report.

Now, before I get shot down in flames by my feminist friends (and I have a few), do you believe we are overthinking this just a little bit? Who really takes notice of the walky man on the traffic signals anyhow? Personally I just see green or red... can I go now or can't I?

Let's take it a step further, if you are taking note of whether the person on the traffic signals is built like a "male stick man" or a "female stick woman", do you have too much time on your hands and could your thoughts be better directed towards something else? I'm going to guess YES!

So curiosity got the better of me and I did some googling to come up with some viable alternatives above that might not discriminate against anyone.

What is it they say about first world problems?

BIGGER and BETTER reason

A big 'thank you' for all your referrals over the last 6 months.

It has been an interesting period - interest rate rises and bank policy changes - and your continuing support means a lot to us.

However, due to unforeseen circumstances, we have had to extend our Gold Class referral promotion.

To make it up to you, we are now upgrading the number of seats to 24 and food and beverages will also be included!

For those who haven't heard about our exciting promotion, we are giving one lucky client and his/her referral a chance to WIN the entire Gold Class booking area at Event Cinemas, Innaloo. Your choice as to the movie and guests, and we will organise the rest!

Again, it is the simplest promotion to enter: please have your friend mention your name when they contact us, and when the loan settles, you are both automatically in the draw.

The draw will take place on 30th November 2017.

One thing you don't know about mortgages

Written by
Martin Lau
Catalyst Finance

Picture this: you have had the same job for 2 years, diligently saved 20% deposit and paid off all debts. After meticulously going through your budget, you decide it is time to buy your first home.

You then spend many weekends fastidiously attending home opens and scouting barren lands. When the state government increased the FHOG temporarily to $15,000, you sign up for a house and land package. At the advice of Mr Smith, who sits next to you in the office, you submit a home loan application to a lender with the cheapest advertised rate.

After all, a mortgage is only about filling in the application form and providing the supporting documents… … right? And the finance approval is just a formality… … right?

But, there is one thing you don't know – it rarely gets discussed publicly. It has a potentially decisive impact on your application and mortgage: a valuation.

A valuation is mandatory for properties over certain values and for loans that require lenders mortgage insurance. Contrary to popular belief, lenders outsource their valuations, through a third party platform. When a lender/broker submits a valuation request to the platform, the job will be randomly assign to one of the few pre-selected valuers by the originating lender.

When the assigned valuer gets the job, he/she will peruse the land and construction contracts, go to the site, compare it against relevant sales data and determine, in his opinion, the value of the property as if it is fully completed. Crucially, his opinion sometimes does not equate to the contract prices, and this can have massive repercussions.

So, your land contract is $250,000 and the building contract is also $250,000, $500,000 in total. But, after one week of waiting, the lender tells you that the bank's valuation is $470,000, $30,000 below what you have signed for! The valuer commented that 'the building contract price is considered to be excessive'.

Did you really overpay the builder?

The lender continues 'we still can lend your $400,000, but you now have to pay Lenders Mortgage Insurance and the interest rate will be higher'.

So much for the cheapest rate! This has turned from a dream to a nightmare because of a valuation!

When the valuation comes in below the contract price, we call it a shortfall.

Don't believe this happens in real life? Try Google 'house and land valuation shortfall'. Regrettably, it is becoming a common issue.

Fortunately, any resourceful mortgage brokers can deal with a shortfall. We will either organize a new valuation from another lender/valuer or challenge the valuation by providing more comparable sales data. But truth be told, the latter option rarely succeeds.

Very often, when we get a second valuation, the amount can be vastly different to the first, and with contradictory opinions. But, with a 'holier than thou' attitude, a valuer rarely, if ever, revises his opinions, even with compelling evidence from his peers.

Due to the shortfall, an unfortunate borrower may end up forfeiting the deposit, or if looking to refinance, unable to change banks.

I must stress I have nothing against an individual valuer or a particular firm. I simply believe that the valuation process, in its current form, is neither fair nor just. When an application is determined by facts (such as your employment situation) and numbers (such as your income and deposits), a single person's opinion should not and cannot have such a great impact on your mortgage.

In the end, you will still get the house and land package.

If you are lucky, like winning the lotto-type lucky, you would have successfully challenged the initial valuation.

If you are like most applicants, you ended up with a second choice lender – hopefully through a first-grade mortgage broker!

Doing Our Bit

If you would prefer to have your newsletter emailed rather than posted, please drop us a line at **admin@catalystfinance.com.au**

Things to do with kids

Written by *Vyanne Lau* – Catalyst Finance

Do you ever wonder what to do over the weekend, especially if you've got 2 active boys like mine? Well, here are some of the upcoming events that might give you an idea.

Perth Makers Market
2 April & 14 May 2017 9.30am to 3.30pm

I've only just found out about Perth Maker's Market while doing my research on some of these events. It is an exclusively handmade only market located in Applecross, offering 150 stalls including woodwork, toys, art and plenty more. This is a free admission event and is open to everyone.

Fremantle International Street Arts Festival
14 - 17 April 2017 1pm to 9pm

One of the must-do's in our family during Easter long weekend. There are performances from around the world, showcasing street theatre, comedy, circus and a lot more! Grab some brunch along Fisherman's Wharf, picnic by the playground area, or stopping for a coffee/ ice cream along the Cappuccino Strip is always something nice to do, with or without a festival!

Pick you own fruits and vegetables

Who says there is only strawberry picking in Perth? Try mango picking whilst breathing in the sweet fragrance or the colourful fruits and vegetables for picking just 45 mins from Perth. Here is a list of places where you can 'pick your own':

Perth Mango Farm – located on 105 Wattle Ave West Neerabup WA 6031, opens from 4th of March 2017

The Fruit Corner – located on 1 Bracken Road Pickering Brook WA 6076, opens from Thursday to Sunday 9am – 3pm.

Valley Fresh Produce – located on 50 McCorkill Road Pickering Brook WA 6076, opens from April 2017 every Saturday and Sunday 10am – 4pm

PS: Be sure to check their Facebook sites before the drive, as time and dates might vary due to productivity and weather

Mango Sago with Coconut Milk

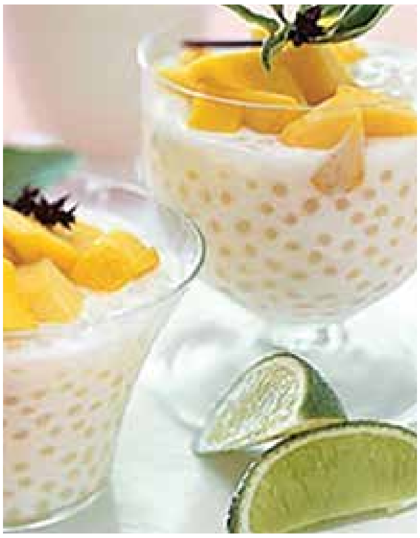
For those who love a bowl of sago after Sunday dim sum, here is a simple yet delicious recipe for you to make at home! You could always alternate mango with watermelon or rockmelon depending on the season.

Ingredients:

- 200ml of coconut milk
- 200ml of fresh milk
- 200ml of water
- 3 tbsp of sugar
- 100g of sago
- 1 whole fresh mango

Methods:

1. Bring coconut milk, fresh milk, water and sugar to boil. Leave aside to cool.
2. Bring 2 litres of water to boil, put in sago and stir constantly to avoid them sticking at the bottom.
3. Once sago turns transparent with little white dot in the middle, cover and remove from heat, and let it sit for 15mins.
4. Remove sago and run it under cold water.
5. Mix sago into chilled coconut milk mixture and topped it up with fresh mango cubes. Serve chilled.



A good time to borrow money????

Written by
Jason Cheetham
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Well for those of you who haven't touched base with us over the last couple of years, the lending landscape has changed tremendously over this time.

Once the prudential regulator of financial institutions, our good friends at APRA, started telling banks they were too flexible with credit and didn't analyse every borrowers circumstances to the extent they should, a few things have changed to say the least.

So much has changed for some borrowers, it is difficult the fathom the extremities of how this has and will continue to affect new lending. Let me give you a real life example:

Client has loans totaling $1.5 million against four properties, all being investment properties and he himself is single and still living with his parents. He is a salaried employee earning $70,000 p.a. and yields $87,600 p.a. in rental income, with no other (hard) debts apart from the mortgages. So when he applies to borrow more from his bank in early 2016 to purchase the fourth investment property, it was approved and met their servicing criteria. In a nutshell, the rental yield used was 3.6% (being 80% of actual overall yield) and actual interest rates of around 4%, there was not much of a shortfall for the applicant to service on his salary. The new loan was approved on this basis.

What the bank and then mortgage broker (which was not Catalyst by the way) failed to consider in their assessment was:

- The loans have to revert to principal and interest at some stage (normally interest only periods are for a maximum of five years), which will increase actual payments significantly.
- Interest rates are at all-time lows… …a more realistic longer term interest rate is around 7 to 7.5%. The bank assumed it would stay at 4% forevermore.
- The applicant wouldn't live with his parents forever – at some stage he would need to either rent or move into one of the properties and forgo one lot of rental income.
- Client had a credit card that had nothing owing on it for the previous 3 months, therefore it was not included as a liability. We all know credit card debt accumulates when cash flow becomes a problem.

Now if we look at how much this same applicant can expect to borrow today, with the same bank mind you, it is a very different story. I am using exactly the same numbers from a year ago and he can now borrow $1.05 M, which is actually less than he owed the bank when he successfully applied for finance last year to purchase his fourth investment property. So not only would the same bank decline finance for that purchase a year ago, they would also say you can't afford (on paper) the current loans you already have!

Clients most affected by these APRA-forced changes are those with larger debts and multiple properties. Banks are being more conservative with rental income and are removing any negative gearing benefits from their serviceability calculations, while assuming that all debt is principal and interest and at a minimum benchmark interest rate of 7%. Add to this, banks are now using higher living expenses allowance for singles and families, and the scaling of overtime/bonus income for wage earners has reduced from 100% to 80%. It is so much harder to borrow money now than in my 23 years tenure as a mortgage broker.

So where does this leave us???

Many borrowers who were "maxed out" with their borrowing capacity over the past few years will now find they are hamstrung when it comes to borrowing more money. Even more concerning is those coming off interest only repayments to a normal principal and interest loan will NEED to commit to these higher repayments. When interest only terms are maturing, banks are now doing a full assessment of your repayment capacity and if you can't prove loan servicing based on new assessment policy, they will NOT ALLOW YOU TO EXTEND YOUR INTEREST ONLY PERIOD…… thus your repayments have to increase if you cannot afford the repayments on paper. How's that for a ridiculous situation… yes we will allow your lower repayments (interest only) to continue so long as we think you can afford to make higher repayments BUT if you can't show that you can service principal and interest repayments at a rate around 7%, then we have no choice but to increase your repayments to principal and interest. The absurdity of all this will rise to be a major issue over the next few months.

On the other side of the coin, if you have good equity and low debt for your household income, you still have the ability to play in this current market and invest, upgrade, refinance or otherwise. Given there are a lot of consumers who are now completely hamstrung due to these reviewed lending policies, not to mention lower property valuations, those who can afford to do something in this current market indeed have the timing right to make smart investment decisions and prosper into the future.

For a full complimentary review of your financial situation, drop us an email or give us a call to discuss your options.

If any of your details have changed or will be changing shortly, please contact us so we can amend our database. If you no longer wish to receive our newsletters or would prefer to receive them electronically please drop us a line at admin@catalystfinance.com.au and we will look after you.

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