

# GLOBAL CREDIT CRUNCH AND YOU

## by Allistar Walker

3/10/08

Hasn't our world been turned upside down over the last few weeks? The phrase '**credit crunch**' has now entered everyday language, but what does it really mean for us blokes in the street? It is an economic condition where investment capital is difficult to obtain. Banks and investors become wary of lending funds and consequently the price of debt products goes up for borrowers. But you may say interest rates are trending downwards and you can see your loan getting cheaper by the end of the year! That may be so but Banks sourcing approximately 40% of their funding from offshore are now paying a premium to obtain those funds and only the actions of the Reserve Bank by lowering the Official Cash Rate (next OCR announcement is 23 October) will stave off interest rate increases.

However, the manipulation of the OCR is to control inflation outcomes 18 months out. So cuts in the OCR won't be made just to offset the extra being paid by Banks for offshore money. Never-the-less the informed expectation is that mortgage rates will ease – so don't fix too long – probably go for a 6 month or 12 month fixed rate at the most.

It is a fine line that Mr Bollard must tread. He appears to have achieved a slowdown in the growth of debt, reflected in a very weak housing market. If you are selling a property at the moment, don't expect last year's prices – they've gone out with the baby and the bath water.

### **How have banks tightened up?**

Many of us have heard the old saying 'When the sun is shining the banker will give you an umbrella (I've got heaps of bank umbrellas) but when it rains they will take it away! (Mine are hidden!)

From more recent days when we would see lenders parcel out the money with gay abandon in the name of being competitive and afraid to lose market share, we are now seeing a major retraction by many banks and other lenders. One major bank announced this week that they were no longer lending above 80% of a property's value. No doubt there will be exceptions but this is the broad policy rule. Some others have withdrawn certain investor facilities or being cautious on any loans over 90%.

This would appear to be a time more than ever before that people need to use a qualified and experienced mortgage broker to obtain funding, because the playing field is definitely skewed and the wrong options could prove costly in the long term.

### **Is this a watershed era?**

Yes, possibly it is. The crazy notion that if borrowers ran into trouble they could refinance their home and consumer debt has now also been tossed out with the bath water. Anyone feeling they can still do this may be in for a nasty surprise. Lenders will go back to their original basic sound principles of good lending. Consumers will

learn that they have to put more money into a purchase and may even need to work second jobs. Yes, the excesses of this early part of the century will soon be but a memory.

**US Banks fail, but what about our Banks?**

The structure and fiduciary requirements for banks in the USA and Aussie/NZ are quite different. Our banks are required to hold far greater reserves and also haven't been involved in the same way with doubtful lending. You can feel warm fuzzies on this one, no need to panic.

**When will times get better?**

They will, as sure as the sun rises, every day. Interest rates may not go as low as in 1999, 2001 or 2003, but should hit cyclical lows toward the end of 2009. Possibly the worst is gone but the next 18 months or so could see things a little rocky, sort of like getting over the 'flu.

Business expectations have improved and that is important to our well being, for business (not the Beehive) drives the economy.

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