

## **HONOUR, DISHONOUR, UMBRELLAS AND AN OCR - Allistar Walker**

The Bank of New Zealand recently hit the headlines with the momentous decision that they were not charging honour fees or dishonour fees any more. Also it was intimated that they may gain business from other Banks who were charging those fees. What sort of business is the BNZ hoping to attract? Perhaps the only bank that has needed a public bail out in more recent times wants to again attract the less robust type of client. Why such an article should make a major headline is also somewhat perplexing.

This is an indication of how much bank policies have come to affect our every day lives. Who doesn't know what an OCR is these days and who isn't aware that banks are selling up peoples' properties more than we have ever experienced. The banks let the purse strings out and everyone wallows in the glow of borrowed comfort, then they draw them in at about neck level so some of us choke.

Advertisements regularly appear in the news media exhorting people to take 'easy credit', even now as the banks have largely stopped issuing umbrellas and are busy taking the ones back they issued in previous years [*From the saying 'Banks issue umbrellas when it is sunny and take them away when it rains'*].

At the moment it is raining and some people are still getting wet. The forecast remains uncertain but the clouds on the horizon seem lighter and the sun is poking through. Banks are not buying into clients who have shown a less than satisfactory history in the past. More than ever people need to take responsibility for their own direction, by knowing what they want to achieve and put a plan in place that has room to accommodate unexpected obstacles. In other words, don't financially commit to the hilt and expect someone else to bail you out. That only happens with US car-makers. The message is 'Keep your bank records and credit record clean'. If you are having problems talk with your broker or your bank as early as possible.

Anticipate and insure the risks. Too often we see news media reports about this poor soul or that poor soul who could have avoided the pain of feeling hard done by if they had appropriate insurance or had sufficient flexibility in their facilities with the Bank. Sitting down with an unbiased competent broker is usually more effective in putting an appropriate structure in place, so you don't get caught with your pants down.

Mr Bollard, the Reserve Bank Governor, recently kept the Official Cash Rate on hold. He does still have another 0.5% downward to play with but may not need to use it. The pressure has been lifted off any rises and Mr Bollard expects to maintain low interest rates well into 2010. This is an excellent time to achieve much faster reduction of principal. Various commentators recommend fixing loans from 6 months or 12 months or a three year period. This of course illustrates the confusion in the market at present. We are happy to offer our unbiased advice on what you should do or put you on our 'Rate Watch' publication which goes into more detail.

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