

# Money Talk

## Solutions and service - not just products

### **Business Finance Solutions**

- Business Acquisition
- Refinance & Restructure
- Working Capital
- Import /Trade Finance
- Invoice Discounting
- Professional Practice Finance
  - Accountants
  - Financial Planning
  - Legal Practices
- Franchise Funding
- Rent Roll Acquisition
- Business Succession
- Management Buy Out / In
- Agricultural Finance
- Vehicle & Equipment Finance
  - Finance Lease
  - Novated Lease
  - Personal Lease
  - Commercial Hire Purchase
  - Chattel Mortgage
- Equipment Rental
- Advisory Services

### **Commercial Property Finance Solutions**

- Acquisition
- Refinance
- Development & Construction
- SMSF Loans

### **Residential Property Finance Solutions**

- Purchase
- Refinance
- Construction
- Wealth creation
- Consolidation

### **Other Personal Finance Solutions**

- Vehicle Buying Service
- Personal lease - Non business

## **Riding the Chinese Tiger**

One of the big lessons for all of us that emerged out of the Global Financial Crisis is that in a era when billions of dollars can be moved from country to country in an instant, the economies of all nations are closely linked. In June 2007 none of us had heard of NINJA loans or the emerging subprime crisis. Few of us really cared about the US property market.

In the last 12 months we have seen more than 40% of local near city property sales being made to Asian buyers . In itself this is not a bad thing. After all most of the vendors are local, and all we are seeing is a wealth transfer from China to Australia.

What is a concern (to all except the lucky vendors) is the irrational prices being paid for properties. In comparison to the Chinese market our homes are relatively undervalued. Homes in Australia also represent a safe haven for capital and the opportunity to educate children at quality schools and universities. Many will remain here after their education.

As we ride the Chinese economic miracle we need to be aware that even though it has a “command” economy it is still fragile, and subject to immense internal and external pressures.

### **Some facts about the residential real estate market in China**

- 80% of families own their own home.
- Half of all households bought their property at a subsidised price.
- 1/3 purchased their home with subsidised rates from work units.
- The majority of households have minimal mortgage servicing costs.
- The average Loan to Valuation Ratio has increased from 34% to 66%
- The majority of housing sales cater for up graders.
- Between 2002 & 2006 the income share of the top 25% of households (50m households) rose – the income share of the remaining 75% (150m households) fell.
- The demand from the top 25% of households is 8 x the country’s annual housing supply of 600 million square metres.
- The interest rate on one year deposit funds is 2.25% The benchmark one year lending rate is 5.31% .
- Housing prices increased 170% in 12 months in the major cities
- By 2020 its expected that 70% (1bn) of Chinas’ population will live in cities – they need to find housing for 400m new city dwellers.

**There is a major property bubble emerging in the top end of the Chinese residential market - if the market collapses it could have “ knock on” effects for our own market with the forced sale of local assets and repatriation of funds back to China !**

What is of interest is how the Chinese Govt is dealing with the problem

(See overleaf)



## Indicative Rates - AFN Residential Loans

AFN Standard Variable home loan - borrow to 90%	6.98% - CR 7.03%
AFN Premium Variable - No annual fees	6.39% - CR 6.42%
AFN Premium Variable - Annual Fee	6.21% - CR 6.39%
AFN Premium Variable with Capped rate (7.49% 2 yrs)	6.29% - CR 6.57%
AFN Link Loan	7.10% - CR 7.27%

**AFN Residential and Corporate Finance is a specialist mortgage manager, finance broker and consultant**

**Helping you to achieve your personal and business objectives**

**Add over 150 years of combined banking and finance industry experience to your advisory team ...**

### **AFN Residential Finance**

Australian Finance Network Pty Ltd  
(ABN 34 089 429 218)

### **AFN Corporate Finance Pty Ltd**

(ABN 44 107 865 681)

Suite 3, 109 Union Road Surrey Hills Vic 3127  
Phone: (03) 9890 0822 Fax: (03) 9898 9296  
Email: [loans@australianfinance.com.au](mailto:loans@australianfinance.com.au)  
Web: [www.australianfinance.com.au](http://www.australianfinance.com.au)

Unlike Australia, the Chinese Govt doesn't use interest rates as a bludgeon to cool the housing market. Raising interest rates may slow the property market—but it also affects other areas of the economy where the opposite effect may be required—e.g. encouraging small business investment.

#### **The Chinese Solution**

The Chinese Government has announced the following measures

- Bank Reserve ratios have been increased to 16.5% (substantially more than Australian Banks) - limiting their capacity to lend for housing by 300 billion yuan.
- Targeted a 22% reduction in new housing loans.
- Imposed a ban on loans for people buying their 3rd and subsequent residential properties.
- Increased mortgage rates and equity requirements for people buying a second home or investment property.

Whilst these measures may seem draconian they have had immediate effect in cooling the investment property market and delayed the need for an interest rate increase.

#### **Some further food for thought**

Borrowings in Western countries (debtor countries like Australia) are being funded by the savings of the Chinese and other Asian workers. If the internal demand for property finance in those countries results in savings rates as high as those offered by Australian banks .....??

#### **Borrowing - Talk to AFN about your plans**

Good finance outcomes are about early planning and preparation. A vital part of our client offering at AFN is that we're prepared to invest time and expertise with our clients to ensure that their goals are achieved with a minimum of stress and inconvenience. We invite you to spend an hour of your time to review and plan your finances - it will be time well spent .

#### **Some Guidelines**

- If you have a SMSF or have a "transitions to retirement programme" in place - make sure that it's documented and you have an annual reconciliation statement that clearly shows the cash trail.
- Business borrowers need to be aware that all banks are looking extremely closely at "new to bank" clients.
- Similarly, banks are now looking to have the entire banking relationship - ie they want the business finance + your home loan+ the transactional banking + they're going to endeavour to sell you their financial planning products and insurance.
- Self employed and business borrowers will need **FY 2009** financial statements and taxation returns for all entities

**Contact us on (03) 9890 0822**