Autumn 2019 Newsletter

MORTGAGE & FINANCE

- UPDATE -

Better Choice
Mortgage Services

FEE-FOR-SERVICE 'FAILED' IN NETHERLANDS

A broker group has said the 'Netherlands model' recommended by Commissioner Hayne in the final report has actually proved to be a huge failure in the Netherlands since it was introduced in 2008.

The country's use of a borrower pays fee for service was mentioned during the Royal Commission and subsequently recommended in the final report.

But according to a 2017 report entitled Banking in the Netherlands, obtained by Loan Market Group, the total number of banks in the Netherlands decreased from 99 banks in 2007 to just 44 banks in 2017.

Mortgage broker commissions from lenders were completely banned in 2013, after being phased out from 2008.

The Statista report found the size of the banking sector as a whole in the Netherlands decreased by almost half.

> *The total number of bank offices was approximately 3,400 in 2008. In 2016, this was less than 1,700.*

The report categorised the Dutch banking sector as "one of the most concentrated in Europe".

Additionally, Moody's Investment Services 2018 report found one of the biggest Netherland institutions, ABN Amro's net interest ***margins have grown steadily*** *since 2010.*

The top five big banks in the Netherlands (including ING, Rabobank and ABN Amro) now control 83.8% of the Netherland's marketplace.

In comparison, the Australian marketplace net interest ***margins of major and regional banks have been on a steady decrease*** *since brokers were introduced into the sector in the mid-1990s, according to the Reserve Bank of Australia.*

Loan Market Group said this set of data demonstrates a pronounced lack of competition in the Netherlands, significantly contracting the banking sector, with mortgage brokers no longer having the ability to introduce borrowers to numerous products offered by the smaller banks and lenders.

Loan Market Group executive chairman Sam White said,

> *"This just further demonstrates the Netherlands model would be a terrible outcome for Aussies.*

"This model has resulted in fewer lenders and fewer options for Dutch consumers. I fail to see how this is the best option for our marketplace.

The model that has been held up as the roadmap for the Australian mortgage market has been proven, by this research, to result in less competition and the highest concentration of big banks in Europe.

"This means customers have less choice, pay more fees and will get stuck in a home loan because the cost of changing will be too much as they'll need to fork out each time they want something changed."

White criticised the commission for not researching information like this before making the recommendation.

"It is astounding people have spoken about the Netherlands model with such enthusiasm when we were able to find this solid research very quickly and easily online," he said.

"It would be nice to think the Commissioner and his team might have done more research than they have, before turning the mortgage industry on its head and recommending a financially detrimental solution for everyday Aussies who are looking for the best home loan solution."

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WELCOME TO OUR AUTUMN EDITION

All of us at Better Choice are heartened by the phone calls, emails and Facebook posts of support since the Royal Commission has handed down its recommendations.

2019 marks the 20th year of trading for Better Choice and we plan to be around a lot longer seeking out the best mortgage options for our thousands of mortgage clients.

With all of the information we are putting out there to the media, politicians and anyone who will listen, we are going to great lengths to make it clear that this is as much about you our clients as it is about the brokers themselves.

Brokers and the products we offer have always been about customer choice, competition, reducing interest rates/fees and exceptional customer service. When you consider the following factual statistics it is very easy to determine that the Australian Mortgage Broker is in fine health and delivering excellent outcomes for all Australians, i.e.

- *Broker share of residential lending 59.1%*
- *Broker Customers satisfied/highly satisfied 96%*
- *Non major lender share of Broker Business 40%*

The above figures peaked late 2018, confirming that the broking industry continues to improve. Broker customers are happy customers who love what we do.

Commissioner Hayne wants you to pay a fee to use your broker or directly to the bank, as opposed to your broker being paid by the lender. How can this be good for you?

The Royal Commission has based their broker remuneration on either poorly researched (if researched at all), information and falsehoods perpetrated by major banks. The CBA has called for a 'client pays' model like the Netherlands.

Since client pays was introduced in the Netherlands, the following has occurred – i.e.

- *In 10 years to 2017 the number of lenders fell from 93 to 44*
- *The top 5 big Netherlands banks achieved 83.8% market share*
- *The number of bank branches reduced from 3421 to 1619*

CBA's CEO Matt Comyn's claims to adopt the Netherlands model has been shown up to what it is – an opportunistic attempt to limit choice to the consumers and increase market share for the major banks.

We can't be clearer about this; the Royal Commission is as much about you the consumer as it is about us the brokers. We're in this together. You can help by signing on the petitions, phoning and emailing politicians and sending letters/emails to newspapers and calling talk back radio.

Together we can bury these crazy recommendations.

! **PLEASE SUPPORT YOUR LOCAL BROKER, PLEASE CLICK HERE AND DIGITALLY SIGN THE PETITION** **SIGN NOW**

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RESEARCH REVEALS BORROWER SATISFACTION

New research has revealed most people who have sourced mortgages through brokers are satisfied with almost every aspect of the transaction.

The Finance Brokers Association of Australia (FBAA) commissioned the research project through finance industry researchers MyNextAdvice. It took into account responses from 2049 clients who had settled loans, on a range of KPIs including broker-client relationship and ease of doing business.

> *FBAA executive director Peter White said the results indicated brokers are doing the right thing by their clients.*

Findings:

95%	HAD OVERALL CONFIDENCE IN BROKERS AND FOUND THEM EASY TO DO BUSINESS WITH
94%	WERE HAPPY WITH THEIR BROKER'S KNOWLEDGE AND COMPETENCY
93%	AGREED THEIR BROKER HAD THEIR CLIENTS' INTEREST AT HEART
93.6%	FOUND THEIR BROKER UNDERSTOOD THEIR NEEDS, OBJECTIVES & FINANCIAL SITUATION
92.1%	SATISFIED WITH THE STRENGTH OF THE BROKER-CLIENT RELATIONSHIP

One respondent said in the survey, "Highly recommended, excellent service, quick response, excellent savings and results. Highly recommended to friends and family who have said the same thing. A+."

White said, "There is always room to improve but when we see the issues in the royal commission we know the broker industry is best in breed, and the objections raised by the productivity commissioner are simply not based in fact or competent research."

- AUSTRALIAN BROKER -

BEWARE THE INTEREST-ONLY DANGER ZONE

Borrowers could be facing substantial repayment hikes once their interest-only loan contracts expire but there are ways they can prepare for changes to mitigate their impact says Aaron Christie-David.

From **2018 to 2021,** an estimated 200,000 interest-only (IO) loans totalling $480 billion will expire and be reset to principal and interest (P&I) loans.

For the average investor or owner-occupier that means a pretty significant hike in your repayment, or what the RBA has called a 'non trivial' sum of about $7000 per year.

Further I see a combination of three factors that could impact capital growth between now and 2021:

- *Stunted wage growth,*
- *Inflation*
- *Increased cost of living*
- *Softening rental income*
- *Increased supply of housing*

SO WHAT DO YOU DO? The answer lies in taking action now, not waiting until the issues are well and truly on your doorstep.

MAKE PEACE WITH P&I Do the sums and decide whether it's best for you to switch to a P&I loan now or wait for the loan to reset. And while you may not like it, you need to find the extra cash flow. Could you pay off your car loan earlier? How about culling some of your luxuries? Get serious about revamping your budget and make yourself accountable to someone else so you stick with it.

SELL UP Selling in the current soft market is not an ideal strategy, especially when you consider what you originally paid in stamp duty, legal fees, basic renovations and then sales agent's fee. It would be better to find a way to weather the cycle, and even be prepared to hang onto it for longer than you originally intended.

INCREASE THE RENT Rents have remained relatively flat in most capital cities over the last decade, and we also hear regular talk about an apartment glut across major cities. Talk to your property manager as this may or may not be an option for you depending on vacancy rates and location.

> *In the face of changing loan conditions, this is a perfect time to reassess your game plan and remind yourself why you bought the property in the first place, i.e. what was it meant to deliver for you?*

My suggestion is that while it might be tempting to refinance and chase a lower rate, you may actually wind up paying more interest over the life of the loan if you keep extending the 30-year loan term each time you refinance.

At the end of the day, the goal is to create wealth, not create more household debt.

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THE AVERAGE INVESTOR OR OWNER-OCCUPIER THIS MEANS **$7,000** INCREASE IN LOAN REPAYMENTS PER YEAR

APPLES ARE THE "WONDER FRUIT OF THE WORLD"

University of Newcastle researcher Dr Vincent Candrawinata is calling on Australians to increase their consumption of apples, saying they "are quite an extraordinary package of super powers".

"Not only are they full of fibre, vitamin C and other beneficial nutrients, they are also known to inhibit cancer, reduce hair loss, improve the health of our teeth and gums, reduce bowel inflammation, speed up weight loss, and lower the risk of heart disease and diabetes," he said.

> *An apple a day not only keeps the doctor away, it also keeps us living longer."*

"Now, thanks to groundbreaking world research, it is possible to say apples will make you live longer. Apples also contain Fisetin, which based on recent research published by EbioMedicine is a senotherapeutic that extends health and lifespan. Many people believe that Fisetin is the holy grail of long life."

The human aging process involves the accumulation of damaged cells, he noted, and damaged cells undergo further aging and deterioration, which cause inflammation and tissue damage. Fisetin has been found to reduce the level of damaged cells, he said.

"Further research is being undertaken to better understand the role Fisetin plays in our body and what type of dosage is required to optimise its impact on our lifespan.

"Most people eat only half the recommended quantity of fruit, but drink way too much fruit juice. My advice is stay away from fruit juice, it is full of sugar and low in dietary fibre. Instead, reach for an apple. Pack a couple in your bag every day and make sure you eat them."

Apples are full of vitamins, minerals and phytochemicals, he said, and red apples contain carotenes, vitamin A, which also assists our immune function.

"With the humble apple being responsible for so many health benefits, and now according to researchers, Fisetin, which can increase our health and lifespans."

"Add apples to your meals in fruit salad or an additional ingredient in salads. Add them to smoothies or just add one to your lunch box as a snack. Apples are versatile and easy to carry around. They are the ideal food," he suggested.

- WELLNESS DAILY -

10 PERTH SUBURBS WITH MOST SALES

SUBURB	HOUSE SALES YT SEPT 18	LOWER QUARTILE SALE PRICE YT SEPT 18	UPPER QUARTILE SALE PRICE YT SEPT 18	ANNUAL CHANGE FOR 1 YR MEDIAN	HIGHEST SALE PRICE YT SEPT 18
CANNING VALE	328	$475,000	$625,000	-2.7%	$1,500,000
BALDIVIS	319	$342,500	$460,000	-3.4%	$975,000
MORLEY	269	$420,000	$525,000	-4.1%	$851,000
DIANELLA	252	$464,000	$720,000	-0.5%	$2,000,000
THORNLIE	245	$337,750	$437,500	-1.9%	$645,000
ELLENBROOK	225	$325,000	$429,000	-6.4%	$675,000
GOSNELLS	222	$265,000	$346,000	-4.5%	$560,000
WILLETTON	203	$630,000	$781,000	-0.4%	$1,100,000
DUNCRAIG	191	$587,500	$809,000	-0.9%	$1,350,000
CLARKSON	182	$318,000	$425,000	-8.9%	$751,000

- THE WEST AUSTRALIAN -

WA ECONOMY BOUNCING BACK TO HEALTH AFTER END OF RESOURCES BOOM

WA's economy is bouncing back to health, with a resurgent mining and resources sector driving the State to one of the strongest growth rates in the country.

CommSec, in its latest State of the States reporty, said WA's economy grew at an annual rate of 6.7% in the three months to September 30, second only to Tasmania with 6.9%.

Exports led the way courtesy of strong demand and prices for commodities such as WA iron ore and LNG.

The report found that while WA continues to perform poorly compared with its 10-year average or "normal rate", key measures are pointing in the right direction.

It said equipment spending in WA was growing at 17.5% on an annualised basis as businesses felt confident enough to start investing again.

Crucially, equipment spending was also fuelled by farmers seeking to capitalise on good growing conditions last year at a time of high prices and drought in the Eastern States.

The bank also noted that WA's population was growing at its fastest rate in almost three years, albeit at a lower-than-average 0.84%, while real wages and employment were also creeping ahead.

Craig James, CommSec's chief economist, said there was "light at the end of the tunnel" for WA after a tough period following the mining boom.

> *Mr James said the State was returning towards normal levels of economic activity and the cycle of growth may last for another five to 10 years.*

"There are seeds being sown but you're not there yet," he said. "You have population growth, real wage gains, a degree of flattening out in terms of the job market – a number of those things start to impact."

Treasurer Ben Wyatt said the results were encouraging and consistent with WA's figures, showing strengthening business confidence.

"The State of the States report's method of comparing the states current economic performance to its performance over the past 10 years will always throw up a poor result for Western Australia, as it compares our current economic performance to our performance during the recent once-in-a-century resources boom," Mr Wyatt said.

"What is clear from this report and a myriad of economic data available is that the WA economy is improving.

"Business and consumer confidence are the highest they have been in years, overall employment is growing steadily, and the domestic economy is growing for the first time in five years.

"Of course, we would like to see the economy in a stronger state, but all the signs are showing that our government's plan for economic recovering is working."

WesTrac boss Jarvas Croome, said purchases of heavy equipment from trucks to bulldozers had been steadily improving, led by the construction of replacement iron ore mines and new lithium projects. The nice thing about it is it's coming across all sectors.

Mr Croome said equipment spending was also broader based than during the resources boom but things were only getting back to normal.

"There is activity, and that's positive," he said. "But the activity is not at levels it was a few years ago – it's just the activity you'd expect to see in a normal cycle.

"You're seeing it in lithium, you're seeing it in mineral sands, you're seeing some of those older mines coming back into operation, so it is quite broad in terms of the customer base that's buying it.

"Equally for those who are not purchasing new gear, we continue to see strong demand on parts and service as they rebuild equipment and extend its life."

- PERTH NOW -

INCREASE
6.7%
WA ECONOMY

INCREASE
17.5%
EQUIPMENT SPENDING

WA SCHOOLS ADOPT BROKER -LED FINANCIAL LITERACY PROGRAM

A financial literacy program founded by Queensland broker Mhairi MacLeod has been taken up by more than 80 schools, youth and community groups in Western Australia.

The School Entrepreneurs Program – an initiative started by Astute Ability Group founder and principal Mhairi MacLeod and the Mortgage and Finance Association of Australia (MFAA) – has so far been delivered to over 80 schools, youth and community groups in Western Australia.

The program, which has Richmond AFL player Alex Rance as an ambassador, sees finance brokers voluntarily teaching students in high school or other institutions entrepreneurial and money management skills. Some of the topics in the program include setting up a business; developing business plans; product development; marketing strategies; human resources; and strategies for profit, loss and future business direction.

"Finance brokers are ideally positioned to deliver this program due to their financial literacy and competencies as well as their business management and administration experience," Ms MacLeod said.

"How it works is they partner with a local high school or similar institution, and then work as business advisers alongside the teachers, helping students develop, launch and manage a mock start-up business.

"The standard pre-designed program can be delivered over the course of six to 10 weeks, for an hour each week... Although the program has been pre-designed, brokers can easily tailor it to suit their students' needs or their own style."

> *Ms MacLeod said that the adoption of the program in Western Australia was the "biggest" in the nation.*

"More than 80 WA high schools, youth and community groups have now joined the School Entrepreneurs Program since the relaunch, while the interest from brokers has also been significant with 130 nationwide looking to get involved," the founder said.

She added that the need for the program was made apparent by the results of an OECD international student assessment report last year which found that around 20 per cent of 15-year-olds in Australia lacked basic financial literacy.

"Thousands of young Australians have benefitted from taking part in the program and acquiring knowledge and skills which will make them more self-sufficient and better prepared for adulthood," Ms MacLeod said.

"We hope there will be even more support with government funding and employer subsidies to grow the program to its full potential to teach all Australian high school students about money management and business."

- THE ADVISER -

APPLY NOW

INTEREST RATES

OWNER OCCUPIER FROM

3.55%

VARIABLE RATE

*CONDITIONS APPLY

COMPARISON RATE

3.60%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

TAX TIME - WHAT TO WATCH

The tax office has signalled loud and clear it will be targeting popular, and commonly misunderstood, tax deductions this year. Here's everything you need to know to avoid the regulator's wrath.

It's always been the case that taxpayers can't claim tax deductions for expenses they haven't forked out for, or that don't wholly relate to their work.

The ATO's data matching tools are at their most advanced, and access to government and institutional data is unprecedented.

SHORT-TERM RENTALS If you have ever put your place up for rent on Airbnb, or a similar accommodation sharing platform, make sure you're declaring the related income in your tax return.

"The availability of short stay rentals has exploded thanks to the online revolution. With the growing number of homes, apartments, units and rooms available via accommodation sharing sites, there is a real risk some people may not understand their tax obligations," the ATO said.

"We are increasingly using data and technology, to identify any missing income in your tax returns. This data will also identify taxpayers who use sharing economy rental platforms to list a property that is not genuinely available for rent in order to claim unwarranted deductions. There is no high-tech hideaway for rental income," the ATO said.

"STANDARD DEDUCTIONS" A pervasive myth about eligible tax deductions is that everyone is entitled to claim a "standard deduction" of $150 for laundry, 5,000 kilometres for cars or $300 for work-related expenses.

These deductions are available and can be legitimate, but they must arise from expenses incurred directly from a work-related activity.

"While you don't need receipts for claims under $300 for work related expenses, $150 for laundry and 5000 kilometres, you still must have spent the money, it must be related to earning your income, and you must be able to explain how you calculated your claim," said the ATO.

COSMETICS Many taxpayers also wrongly believe they can claim skin products which they deem as work-related.

For example, some taxpayers falsely believe they can claim makeup expenses where a job requires them to attend formal events.

"There are only a handful of taxpayers with special circumstances who can claim things like makeup containing sunscreen. For most, there isn't a link to earning their income," the ATO said.

PROPERTY EXPENSES Under legislation which applied from July 1 2017, taxpayers are no longer able to claim any deductions for the cost of travel to their investment property, with very few exclusions.

> *Further, income tax deductions for the decline in value of previously used plant equipment in an investment property are no longer allowed.*

"A lot of clients have been coming into our offices without really understanding that they have been affected by those changes and they think they can claim things that they now can't and a lot of them are not very happy that they can no longer make these claims particularly around travels costs," said H&R Block's director of tax communications, Mark Chapman.

- NESTEGGS.COM.AU -

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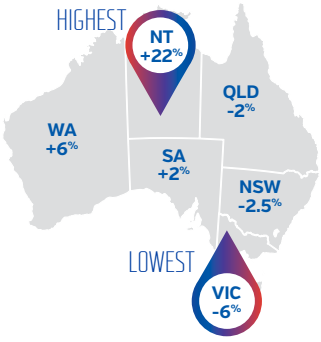
LENDING BY STATE



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LOANS BY MARKET SEGMENT

UPGRADERS
23%
No change on FY18

INVESTORS
27%
1% decline in Q1 2019

REFINANCERS
43%
No change on FY18

SETTLEMENTS AND LEGAL WORK

MDH LEGAL are highly recommended solicitors, specialising in the following services:

- Settlements for the sale and purchase of residential and commercial properties
- Settlements for the sale and purchase of businesses
- Strata titles
- Subdivision applications
- Related party transfers
- Deceased estates
- Powers of attorney
- Wills
- Debt recovery

Melissa Dixon provides a very personalized and cost effective service and will provide a no obligation free quote for any of your settlement and legal requirements on request.

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