

Not all non bank lenders are feeling the credit squeeze

The recent volatility in the credit markets has caused concern in the Australian non-bank lending market, as the increase in short term funding within the capital markets has seen some institutions raising rates by more than the recent Reserve Bank official quarter of a per cent rise.

Chairman of Wizard Home Loans Mark Bouris last week took the unusual step of releasing a media statement rebutting claims by so-called media experts that all non-bank lenders were the same, and at risk to the funding problems experienced by such companies as recently listed short term borrower RAMS Home Loans and non-conforming lender Bluestone, who raised rates by as much as 80 points last week.

"It is ridiculous to lump all non-bank lenders into one category", said Bouris. "As part of General Electric, Wizard is one of the most stable and well funded organisations in the world."

Bouris added that Wizard has a completely different model to most other non-bank lenders, does not fund through the capital markets using securitisation and has not increased interest rates outside the normal RBA cycle due to solid funding, and has no pressing need to do so.

Wizard have increased variable loans by 25 points, with three and five year fixed rates increasing by 10 and 14 points respectively.

Meridian Money funded by Challenger

Alain Gargoura, joint managing director at Meridian Money is of the opinion that fixed rate pricing and cash rate pricing do not move in sync.

"Just because there is an increase in the cash rate, this may have an absolute zero effect on the short term markets or fixed markets.

"It's not uncommon for these two rates to move independently of each other, some market participants who have already moved fixed rates may simply be adjusting margins".

Meridian have not increased any fixed rates, and according to Gargoura they have no anticipation of doing so in the short term.

"I don't think our cost of funding has gone up. We are funded by Challenger who raise funds through the securitisation process which have been rated by agencies such as Standard & Poors and Fitch, and it is effectively these rates we use.

Fully verified and documented loans make up over three quarters of the Meridian Money loan book, with Gargoura identifying a big increase in three and five year fixed rate enquiries by current borrowers looking to move from variable to fixed.

MyRate backed by global institution

Kevin Sherman, managing director at MyRate said there is no anticipation the internet home loan lender's rates will increase due to the credit squeeze, as funding is not generated through the capital markets using securitisation.

"We are funded by ING, one of the largest financial institutions in the world and as such, we operate a very different funding model

than a lot of other non-bank lenders that have exposure to the current capital market funding pressures.

"With this in mind, we do not anticipate any movements in our interest rates outside the official Reserve Bank cash movements."

Sherman identifies fixed rate pricing must take into consideration more than just short term factors, and this should be reflected in the rates. Three and five year fixed loans increased by 10 points, with variable rising 25.

Challenger and Macquarie fund Resi

The largest portion of Resi's book is funded by Challenger, with Macquarie also a contributor of funding, according to head of marketing & consumer advocacy, Lisa Montgomery.

As a non-bank lender, Resi receives a wholesale tranche of borrowing and then lends this to home buyers over time. Since the cost of the current pool of funds has not increased, there is no requirement for rates to change until Resi enters the wholesale lending market again.

Montgomery said variable rates have increased 25 points, but fixed rates have not increased since they are not directly linked to the RBA.

"At the moment it's business as usual for us, we are not expecting any changes (in wholesale funding rates). We have not been advised of any increases from our funders, there has been no notification of changes at all."

Montgomery said there has been an increase in borrowers looking to move from variable to fixed rates for the three and five year periods, with a product option offered to borrowers fixing half their loan, while leaving the other half variable.

AIMS Home Loans does not anticipate rate rises

AIMS has issued under its own brand close to \$3billion RMBS bonds. All residential mortgages are either securitised, or waiting in a warehouse facility until sufficient levels are reached to offer a RMBS to the market.

According to Jim Miltiadis, Head of Credit at AIMS, there is no need to raise fixed mortgage rates along with variable, with non-bank lenders raising rates by more than 10 points are being 'opportunistic'.

"Fixed rates have appeared to have levelled off, with AIMS only increasing three and five year fixed loans by a couple of points since the RBA quarter of a percent rise.

"Unless the Reserve Bank alters monetary policy and market conditions change, we have no intention of moving our rates at this point in time."

Non-bank lenders receive funding from a wide range of sources, some using the increasingly expensive Australian primary market for issues such as corporate bonds, commercial paper and asset backed securities, but other non-bank lenders receive their funds in large tranches from global financial institutions which removes short term interest rate funding risk.