

OPPORTUNITY OR OBSTACLE?



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Lender's mortgage insurance is a misunderstood but often essential tool to help first time buyers enter the property market. *The Adviser* asked some of Australia's leading brokers how they address the topic with their clients and how they overcome common misconceptions



PRICE GROWTH in the property market over the last few years has made it increasingly difficult for first home buyers to save the 20 per cent deposit needed to buy a home.

In addition, the federal government is no longer offering its boosted stimulus, making the property market even tougher to crack.

Today, brokers estimate that five out of ten borrowers will require lender's mortgage insurance (LMI) if they are to enter the market.

So, with LMI playing an increasingly important role in the property dream of first home buyers, what are the observations of leading brokers in addressing LMI with their clients?

How much do first home buyers really know about LMI and how do brokers overcome common client misconceptions?

This month, *The Adviser* and Genworth Financial brought together some of Australia's leading brokers to find out how LMI can be turned from a perceived negative to a positive in the eyes of the borrower.



Q1

DO YOU EXPECT TO SEE FIRST HOME BUYERS RETURN TO THE MARKET? WHAT ARE THE MAIN OBSTACLES TO THIS SECTOR RETURNING?

TONY

I believe the biggest obstacle first home buyers are currently facing is affordability. Property prices have soared over the past couple of years, and while they have stagnated in the last few months, the median property price remains very high. In addition, the federal government has withdrawn its boosted stimulus, which means first home buyers are being forced to save a bigger deposit. That said, first home buyers are very diligent and adaptable. They have been brought up on high interest rates, so they know what they are getting into. They know how expensive a mortgage can be. It is fair to say that we will always see first home buyers coming into the market. They are incredibly savvy and resilient, so they know they can adapt their lifestyle to suit higher mortgage repayments.

MARK

I couldn't agree more. Generally speaking, my first home buyer clients are double income no kids, so they have a little bit more room to breathe than other mortgage holders. They can decide where they want to live, and if that particular area is out of their price range, then they simply change their lifestyle to allow them to meet the higher mortgage repayments. In my experience, other mortgage holders, such as upgraders or second home buyers, tend to have a few kids so they don't have the same level of flexibility. They have school fees among other expenses, and consequently don't have the ability to dramatically change their lifestyle in order to meet higher mortgage repayments.

NICOLE

I have found the same thing. I work with quite a few first home buyers and almost all of them are quite happy to be settled with high levels of debt. They aren't silly. With the advent of the internet, they already know a lot about the property market before they come to a broker, so they know what they are getting themselves in for.

BRIDGET

Absolutely. This was highlighted in the Genworth Homebuyer Confidence Index in March. The index found first home buyers are more confident with high levels of debt than any other borrower. They know what they are getting themselves in for. And, if their circumstances change, they are more likely to make adjustments to their lifestyle to meet higher repayments.

SAM

I think the only other main obstacle stopping first home buyers from entering the property market is the rising cost of living. Petrol and grocery prices are on the up and this might stop them. That said, cost of living is always going to be a factor in Australia – we are one of the most highly taxed countries in the world. So, if first home buyers are in a position to buy, I think now is a really good time to do so. There are a lot of properties on the market, and not a lot of buyers, so you can really take the time to see what is out there and then make the right decision for you and your needs. Better yet, rates are stable and are likely to be so for the foreseeable future, which means borrowers won't have to deal with any unanticipated mortgage payment increases.

BEN

That's right. Of course affordability is still a real and tangible concern for first home buyers. So, before we see any real uptick in business from this sector, we will need to see an increase in government incentives.

BRIDGET

I agree with that. The research that we have carried out has shown us that the level of first home buyer activity was significantly down in 2010 and it is still down in 2011. While 95 per cent LVR lending has only recently come back, so we don't know what the impact of this will be yet, I do believe this section of the market needs to be stimulated by government incentives once again.

Q2

DO YOU SEE LMI AS AN OPPORTUNITY OR AN OBSTACLE FOR BORROWERS WHEN IT COMES TO GETTING THEIR FOOT ON THE PROPERTY LADDER?

MARK

LMI is definitely an opportunity. Without it, I would have very few first home buyer clients proceeding to settlement.

SAM

I agree 100 per cent. LMI has helped a lot of my first home buyer clients get into the market sooner rather than later. You will always come across some clients that do not want to pay lenders mortgage insurance. But, as I tell these clients, in order to avoid paying LMI, they will need to save even more money. However, by the time they have saved that amount of money, house prices may have climbed another 5 per cent. As a broker, you want to get your client the best loan at the lowest rate. You will do anything to save them money. I believe LMI actually helps them save money. I would say three out of every four first home buyers utilise lenders mortgage insurance to help them get into a property sooner.

TERRY

Sam, you're spot on. LMI is definitely an opportunity for first home buyers when it comes to getting their foot on the property ladder.



Q3

HOW OFTEN DO YOU COME ACROSS BORROWERS' OBJECTIONS TO TAKING OUT LMI, WHAT ARE SOME OF THE COMMON CONCERNS AND HOW DO YOU ADDRESS THESE CONCERNS?

TONY

I think the biggest objection clients have to LMI is that it is such a large payment for seemingly little reward. I think they only object to LMI because they don't understand what it is. They have heard about it, but they don't understand the nuts and bolts of it. Once I explain how LMI works and how it will help them get into their dream property sooner rather than later, they are usually very happy to foot the bill. Of course, if they are still freaking out about LMI, I tell them to wait for their next tax return bill and then pay off the insurance in one lump sum.



BRIDGET

Ultimately, LMI helps borrowers get into their home sooner. If you don't have the mandatory 20 per cent deposit, LMI is inevitable. But it shouldn't be perceived as a necessary evil. Rather, it should be seen as a great way to help home buyers out of the rental trap, and out of rising affordability constraints.

BEN

I agree. Probably the biggest concern I hear is: Do I have to pay this out of my savings? Once I tell them that LMI is capitalised, they are over the moon and happy to push ahead with the mortgage using LMI.

SAM

That's right. If they are still wary, I will sit down with them and show them just how much LMI will cost them every month. Usually, it is less than \$30. Once they see this, they feel much more at ease.

BRETT

I think first home buyers still need to be educated on what exactly LMI is. Many have heard about it, but they don't understand what it does, how it works or what benefits it can provide.

NICOLE

I agree. More education is essential. Many think it is general insurance, and subsequently, they don't think they need their own house and contents insurance. There are definitely some misconceptions surrounding LMI.

BRIDGET

One of the main misconceptions we still hear is that borrowers believe that LMI is some kind of mortgage protection insurance. We are currently working with the government to further get the message out there about who we are and what we do and what LMI really is.



Q4

2011 HAS ALREADY PROVEN TO BE A CHALLENGING YEAR FOR BROKERS. SOME HAVE BEEN AFFECTED BY THE NATURAL DISASTERS, WHILE OTHERS HAVE BEEN IMPACTED BY ADDITIONAL PAPERWORK ON THE BACK OF NCCP LICENSING. HOW IS BUSINESS NOW, AND WHAT ARE YOUR EXPECTATIONS FOR THE REST OF THE YEAR?

MARK

Buyer confidence is definitely not where it was this time last year. But I think a large part of that can be attributed to the spate of natural disasters. Everybody is doing it really tough, not just brokers. Property prices are really high and buyers are therefore hesitant to upgrade, downsize, or even jump onto the property ladder. Hopefully, the stable cash rate will improve buyer confidence over the latter part of the year.

BEN

Our colleagues in Brisbane were quiet before the floods. Cairns was very quiet in December 2010 and January this year and it hasn't improved since. The floods brought many businesses to a complete standstill. And I can't see things improving any time soon. One of my colleagues was telling me that people are not buying houses in Queensland because there are no properties to buy. Home owners are now waiting for their properties to be rebuilt which means no-one can sell and brokers can't turn a profit.

NICOLE

I know a broker on the Gold Coast that is suffering really badly too. They have been in business for 30 years and they are being forced to shut their doors. The damage is huge.

BRIDGET

If we excluded Queensland from the Genworth Homebuyer Confidence Index, the Index would have risen in 2011 to 99.9 from 99.1. This emphasises the extent of the disasters' impact.

SAM

Those results definitely are reflective of what we have seen. The disasters had a negative impact on buyer confidence. But, Australians are a resilient bunch; confidence will improve soon. ■

Genworth Financial's relationship manager, partnership and distribution, Michelle Ewens, and segment manager, Richard Socratous were also present at the roundtable.

