

MEDIA RELEASE

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Australian Investors Association

COMMONWEALTH BANK *Family Equity Loans* = CREATIVE LENDING ON A HOUSE OF CARDS

The AIA is concerned that mortgage lenders are beginning to fuel the fire of the already overheated residential property market.

The announcement by the Commonwealth bank of a mortgage facility designed to lend money to people who they would otherwise not lend to is in our opinion unsound from a credit risk management perspective.

"The Commonwealth Bank is opening the doors for first home buyers with family members who would like to help them in covering their monthly repayments or by providing additional security to obtain the loan they require." – CBA Group Executive Retail Banking, Hugh Harley

There is no question that the traditional residential mortgage lenders of which the CBA was the biggest player have been hurt by the success of the new breed of mortgage suppliers and have lost market share. Perhaps this is the major reason why the CBA has announced the new mortgage product which focuses not on the primary borrower but seeks to encourage the parents of the borrower to put their home up as security for the mortgage and worse still to be responsible for all or part of the repayments.

The product is designed to lend more money than the value of the property to be purchased with repayments at a higher amount than the borrower can afford to repay: In other words to a loan made on what would be normally considered a bad risk. But there is no risk to the CBA – family members carry the risk!

We are already seeing the effect of the far less stringent credit risk principles that have been employed in this property boom. Traditionally strict checks on property values, loan to equity ratios and percentage of income allocated to repayments were employed and these controls meant that the residential mortgage book of the major lenders was regarded as the prime asset of the loan book.

These traditional checks and balances have been greatly eroded as a result of the emergence of the 'can do' competition from the Mortgage Brokers. We are beginning to see that the 'can do' attitude is often built on overly optimistic or friendly valuations and statements of income that are rubbery.

Apart from the negative social implications of the new product the economic consequences are a source of great concern.

In a falling market we see this product as nothing more than an attempt to boost revenue by propping up the already overpriced property market that is already carrying record levels of debt.

All that will be achieved, if anything, will be a delay in the inevitable crash which will be even more severe, because the bigger they are the harder they fall.

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