



Turmoil in the Mortgage Markets. What Happened?

It seems that many different but related factors came together to create this disaster. A US property boom which made home ownership difficult was made easier by sub-prime lenders freely extending substantial levels of credit to people who in reality had no capability of repaying the loans. These people may or may not have had a poor credit history but regardless did not have capacity to repay the quantum that they borrowed. These people were offered loans on low start up interest rates of 1 or 2% pa reverting to a standard rate after a couple of years. All this was underwritten not at the rate to which the loan reverted; rather it was underwritten based on the reduced honeymoon period rate. Add to that, the loans were typically fixed rate don't feel the recent impacts of 16 US interest rate rises taking rates to about 7% pa.

When the mortgage reaches the end of its low interest rate start-up period it "resets". Of course at reset date these people have no way of meeting the new and higher repayment amount. The resets started to occur earlier this year and are continuing still now, in fact they will keep occurring until next year. Apparently there were some 7 million of these loans written! To magnify this problem further property prices have started to fall and any equity in these homes are beginning to disappear and in many cases moving into negative equity.

Why has it affected us in Australia when we don't have a default problem? Without going into the complexities of the capital markets, global lenders to Australian banks or non-banks have been spooked by the issues in the US and as a consequence are either demanding greater "risk" premiums in the form of higher interest or indeed not lending at all. Essentially in an environment of fear and loss it is easier and safer to park money in cash or government bonds and wait.

The rising Australian \$

Between late 2003 and early this year the \$A had been trading between \$US0.68 and \$US0.80. When it exceeded this range back in March this year many economists assessment was that it would keep going, possibly to the 1989 high of \$US0.8950. Now having decisively moved past \$US0.90 the \$A looks like it is still heading up.

A stronger \$A is good news for Australian consumers as it will mean lower prices for imported goods such as cars, clothing and electrical goods. For the broader economy and the share market a stronger \$A is normally seen as bad as export and import competing companies become less competitive. A 10% rise in the \$A will mechanically cut earnings by about 3%. Traditionally this suggests a rising \$A should be bad for the Australian share market.

However, at this time the rise in the \$A is linked to the strength in commodity prices - particularly for energy, iron ore, precious metals and wheat - which is ultimately driving renewed pressure on interest rates. Due to these factors it is unlikely to have a huge impact on the share market or the economy overall.

While WHK Financial Planning recognise the effects of the rising \$A on your investments our approach to investing allows us the opportunity to review these factors on a case by case basis and to ensure that you are invested in line with a prudent long term wealth creation strategy.

If you would like to discuss this issue further we encourage you to call one of our offices and speak with one of our experienced licensed Financial Planners.





WHK Armitage Downie continues to grow

In September 2007, WHK Armitage Downie welcomed another office to the firm. Formerly known as Casey Partners Pakenham, the office is located in John Street, close by the existing office in Cook Drive led by Principal Virginia Cook.

The addition of Principal Brian Paynter and his team has increased WHK Armitage Downie's presence in Pakenham, strengthening the existing team and services available to clients within the area. Casey Partners had been operating in Pakenham since 2003, although Brian Paynter has been in the accounting industry for some 21 years and is a very active member of the community.

The Lilydale office also received a boost in October 2007, with the addition of Judy O'Flynn and team joining the firm. Judy's practice was established in 1986 and has specialised in assisting small to medium sized business.

Most recently is the addition to the firm's lending and finance division who as of November 2007 are now providing services directly from Bairnsdale.

Formerly known local business Lease Packaging Australia/Gippsland Corporate Centre (Dunkleys) has joined the group with two lending specialists who will operate from the existing Bairnsdale office offering finance for commercial loans, home loan or equipment finance.

It is an exciting time for staff as we continue to grow, continually looking to the future to provide sufficient resources to meet the individual and personalised needs of our clients from Braeside to Bairnsdale.



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