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HAS THE BANKING SECTOR FORGOTTEN THE LESSONS OF RECESSIONS PAST?

Six years is a long time in the globally enmeshed, modern world of high finance. It was only 2008 when the warning bells alarmed for Aussie lenders; as we watched the US and much of Europe become an example, illustrating why a glut of sub-prime (read dodgy) mortgages can be your country's economic undoing.

With the help of some fiscal manipulation and government policy, as well as tighter regulations around property loans, you could almost say we dodged a bullet here in the 'Lucky Country'.

While other overseas real estate markets crashed and burned in an alarming way during the GFC, our residential housing sector took a bit of a breather before once again shifting up a few gears.

Of course it wasn't all smooth sailing. A lot of people lost a lot of money from their super funds and investment portfolios, but interestingly, most local property investors continued to prosper at best and walked away relatively unscathed at worst.

In turn, more people started looking at bricks and mortar as a viable and importantly more secure, long-term path to financial independence. Now, property is once again fashionable and property investment, particularly within SMSFs, dominates as 'the new black' of the investment world.

The problem with all this renewed interest in property is that it drives the lending industry and increases the banks' bottom lines. It gets everyone excited about profits – investment product spruikers and off the plan developers come out in droves – and of course, lenders vie with one another to attract and retain the blossoming business on offer.

Not too long ago, local banks were tightening their belts and sheltering from the GFC storm by implementing stricter policies around sub-prime lending. No recourse or no-doc, and low-doc loans were all but scrapped and the need to demonstrate affordability as an applicant became a priority.

Short memory...

Fast forward just over five years later and ratings agency Moody's is raising serious concerns around the amount of so-called 'risky' home loans Australian banks are currently handing out.

A review of figures from banking regulator, the Australian Prudential Regulation Authority, revealed that banks are increasingly handing money to clients who represent a higher risk.

June quarter APRA figures showed investor loans increase to constitute a sizeable 37.9% of new lending, compared with an average 32.6% for the previous six years. And on top of this, interest only and non-conforming products have gained significant traction in the market.

Although five per cent might not seem too dramatic in the big scheme of things, that extra 5% worth of investor activity can actually have serious consequences when you consider that investors are more likely to default on a second or third property loan if things go pear shaped, than a home owner.

Remember, they don't rely on the property for shelter and these borrowers are more likely to have higher leveraged loans. Therefore, if markets become shaky or a change in personal circumstances causes a dramatic income adjustment, they are prepared to sacrifice the investment property.

If all you can afford is the interest now...

Then you might be in for some serious pain when we get to that inevitable tipping point in the market, where interest rates once again start to rise.

Worryingly, says Moody's, APRA figures confirm that 43.2% of loans committed to in the June quarter were investor preferred, interest only products.

Given how low the current interest rate environment is, if people are entering into these types of arrangements because it makes the debt they commit to more affordable, then that could pose a bit of a problem. Particularly if maturation of the Interest only period happens to coincide with a likely escalation in interest rates down the track.

Add non-conforming loan candidates to the mix...

Where borrowers do not meet the usual standards when assessing capacity to repay the mortgage in a higher interest rate climate, and you have quite a few flies in the financial ointment. While these loans only make up 3.7% of the mortgage market, Moody's says this is still the highest level recorded over the past six years. Note that six-year timeframe again.

Not all bad for the banks

Downplaying a list of genuine concerns, Moody's reassures us that the Australian banking system is actually very resilient, suggesting the report should be taken as a 'wake up call' rather than a red flag.

Moody's senior credit officer and vice-president Ilya Serov says "We generally see the Australian banking industry as being quite well capitalised, there are certainly some issues around the consistency of the application of capital rules across different types of institutions, particularly from a competition point of view, and that's something the [Financial System] Inquiry is looking into."

He does caution that banks need to remember the more risk they take on when it comes to loan sizes, types and applicants, the more their creditworthiness on the international stage stands to be scrutinized and potentially reduced.

Not a good position to be in when stronger home lending, combined with weaker deposit growth, means banks are being increasingly forced offshore to source additional funds.

In conclusion...

Lenders will invariably step up their game when it comes to increased business in the property finance pool. This current frenzy of renewed investor interest has certainly agitated the waters, encouraging the banks to come out all guns blazing, as we saw recently with their noise about low fixed interest rate loans.

Let's just hope that the promise of increased profits doesn't entice lenders into too many high-risk scenarios that ultimately stand to jeopardize the integrity of our financial regulatory environment. After all, it was our stricter home loan criteria that assisted in sheltering us from the serious GFC storms in 2008; a lesson we would do well to remember.

4 BARGAINING TOOLS TO NEGOTIATE A BETTER BANK RATE

Even though the GFC is now a fading acronym in most economists' minds, the effects of 2008's worldwide glitch in the fiscal matrix are still having a few ripple effects in Australia's banking sector.

The latest influence however, comes with an opportunity for borrowers to save money on their property related loans. According to the latest JP Morgan mortgage industry report, discounts offered by lenders on standard variable mortgage rates have climbed by as much as 140 basis points this year.

JP Morgan banking analyst Scott Manning, claims this is due to the banks' cost of funds – which soared on the back of the GFC – starting to come back down over the past couple of years, meaning more breathing room for retail rate reductions.

However the much-anticipated out-of-cycle variable rate cuts, to make up for a succession of out-of-cycle increases that occurred post-GFC, have not been forthcoming.

Instead, lenders are offering higher discounts on their variable loan products. JP Morgan estimate the average reduction has increased from 75 basis points in 2012 to 100 basis points today, with some borrowers enjoying as much as 140bps concessions on their mortgages.

As with most things banking though, when it comes to securing a good variable rate discount from your financial institution you need to tick a few essential boxes. It's all based on your appeal as a client and risk.

So what exactly do lenders look for when determining the variable rate discount your business is worth to them?

1. Size of loan

Obviously the bigger the loan, the bigger the potential discount on your interest rate. To put it simply, the higher the mortgage balance, the lower the bank's origination costs and of course, this keeps shareholders happy.

Not to mention, if you're gunning for a sizeable loan of say, $500,000 plus, you must have the income, assets and credit history to support the repayments that come with it.

For high net worth investors, this is a great time to parley with your lender for a better rate deal on new and existing property related loans, particularly if you have an established history of business with them and want to refinance.

Remember to weigh up what type of leverage you have in the deal and if you're not sure, consult a professional broker who understands property finance portfolios [Read Trilogy broker here].

2. Type of loan

Investment loans, where the borrower has existing equity in their own home and/or a small cache of residential real estate, will generally attract variable rate discounts because, lets face it, you represent a lot of potential business for lenders.

First homebuyers on the other hand can expect a smaller bone from the banks, because they are more often than not, an untested risk.

Just be careful not to allow yourself to be tied up in messy cross-securitised structures in order to get a higher rate reduction. Although the associated savings might seem too good to pass up, trying to untie the knots of cross-collateralisation will cost you a lot more in the long run.

Again, a good broker who understands how to structure your loan portfolio in order to maximise flexibility and wealth creation, can help to identify the best type of product for your circumstances and investment goals.

3. Loan to Value Ratio

It's all well and good to want to borrow a million from the banks and anticipate an enticing rate reduction offering. But if you only happen to be contributing a 10% deposit (plus associated costs) to the purchase price of the property you're eying, chances are you'll lose a lot of bargaining power.

Banks are in the business of minimising risk in order to reap the maximum reward, it's that cut and dried really. So if you shoulder more of the loan to value ratio burden – say 20% (plus purchase costs) – they will show more flexibility in their variable rate products.

4. Type of borrower

If you have accrued a sizeable deposit by diligently following a strict household budget and saving at least 10% of each wage, or chipping away at your existing property related debt to build up a bank of equity in your home/investment property(s), then lenders will really like you.

They will also show more generosity when it comes to talking rate reductions if you are a 'high net worth' household, with one or two stable incomes and employment history.

The take home message for all borrowers, and property investors in particular, is to really consider where you stand and what leverage you have at your disposal when it comes to dealing with lenders.

It's also good to remember that sometimes you should focus on securing the best overall product and importantly, loan portfolio, for your needs, not just a decent variable or honeymoon rate reduction.

Critically, never over-extend yourself in order to get a better deal. If in doubt when it comes to identifying an affordable loan product that befits your personal needs, consult a professional with the necessary knowledge of property investment finance who can walk you through the process.

STANDARD INTEREST RATES GET PROPERTY MARKETS MOVING

Property markets are driven by an ever-changing set of political, social and economic fundamentals. Macro and micro influences, such as government policy, population growth, employment and wages stability and general consumer sentiment all weigh in on the equation and in turn, push housing values up, down or sideways.

At various points in the now widely recognised cyclical highs, lows and in-betweens of residential real estate, different influences exert more price pressure than others.

Lately, much of the renewed activity around Sydney, Melbourne and Brisbane housing markets, has been aligned with a continuing low interest rate environment that has made property related debt a lot more affordable, particularly for homeowners dipping into their equity to acquire bricks and mortar investments.

However, some are suggesting that we are in dangerous 'too much too soon' territory when it comes to growing market activity, which of course has brought out both the spruikers eager to cash in on all the renewed interest, as well as the doom and gloom property protagonists.

Spring has sprung...

Bringing with it concerns from some analysts about what this seasonally traditional peak period could mean for a market that they fear is already in overdrive.

Many economic forecasters were sending subtle (or outright blatant) smoke signals to the Reserve Bank prior to their September meeting, suggesting a rate rise was required to put the brakes on a little.

Recently, Standard Life's chief economist Jeremy Lawson said factors like our current record low cash rate had driven demand to the point where our housing market is overvalued by as much as 20 to 30%.

Of course, the RBA decided instead to continue their cash rate stalemate, leaving things on hold at 2.50% for an unprecedented fourteenth consecutive month.

The Central Bank's reasoning for their 2nd September determination was a moderately paced, yet accommodating global economic environment, in which "long term interest rates and risk spreads remain very low."

But the usually fertile spring selling months have some of the more skeptical analysts warning of bubble-type scenarios and an imminent collapse, as increased levels of stock and competition, fuelled by warmer weather (along with those attractive interest rates) whips buyers into a greater frenzy.

Sydney is a good example of how crazed the increased competition is making some purchasers; with a federation style cottage in the popular inner west suburb of Leichardt recently fetching $1.59 million in a pre-auction offer – $150,000 more than the vendor anticipated achieving the very next day at the scheduled auction.

This fierce competition is occurring right across the Harbour City, with house prices rising by almost 15% for the year to July 2014, according to RP Data. Melbourne came second, with an 11% annual gain, while the Brisbane property sector rose by a more modest 6.9%.

Experts are warning buyers in Sydney to tread carefully and avoid getting caught up in the current escalating wave of residential real estate fever.

At play in Sydney is not just the same low interest rate environment that's put a bit of fire under most of our cities' respective property markets. Buyers here are also contending with a chronic ongoing housing shortage due to town planning constraints and lack of investment dollars, that's seen population growth (and demand) race well ahead of new dwelling supply.

Where to from here?

Most commentators suggest this year has signalled a levelling out of consumer confidence in Australia's property markets, downplaying any potential for a significant over-correction in prices and hinting that we may have already witnessed the peak of the boom in 2013.

The number of houses sold in Sydney in the first five months of last year soared by a massive 28% from the previous year, whereas this year's increase was a more restrained 6.2%.

It's interesting that these times always bring out the best and the worst when it comes to the opinions that float around the national and international analytical ether; those who foretell of impending disaster and those who come out swinging with their latest property investment products to spruik.

The fact is it's impossible to say in our very wide global economic world what the future holds for Australian residential real estate. Ultimately as an investor, all you can do is weigh up your own position, investment strategy and financial goals at any given time and act accordingly, blocking out the ongoing hype wherever possible.

A good way to move forward confidently when all those around you are making lots of negative noise is to get a better understanding as to the many economic drivers that influence our markets.

At this point, I think the RBA have got it right, given the relative stability of our overall economic position and individual levels of employment and income. These monetary policymakers are well aware of the danger points that could trigger a property crash on our shores and continue managing the risk accordingly.

RETIREMENT FUND REVOLUTION - 9 WAYS TO FUTURE PROOF YOUR POST-WORK INCOME

Australia faces a somewhat unclear future when it comes to supporting our ageing population. With a growing imbalance in the amount of retirees to employees able to support them through ongoing taxpayer funded aged pensions and subsidized healthcare, many are suggesting this type of government assistance is simply not sustainable over the long term.

Some analysts believe aged pensions could become unaffordable for future governments, who will then be in the unenviable position of either committing political suicide by revoking pensions entirely, or looking at increased taxes to support a continued pension fund.

These issues around the future of our economic standing as 'the Lucky Country' came to the fore in recent weeks, when the Libs teamed up with the Palmer United Party to freeze the planned compulsory superannuation guarantee increase that was due to take effect in 2018 until 2025.

The rise from 9.5% to 12% in compulsory employer contributions was put on hold in anticipation of the impact the recent mining tax repeal might have on the budget over coming years.

Interestingly, it has since been revealed that a young Tony Abbott fought the notion of compulsory superannuation way back in 1995, when he told parliament it was one of the 'biggest con jobs' and a way for making Australian workers fund their own retirement so the aged pension could eventually be scrapped.

Indeed, Abbot tried to justify this recent decision around compulsory super guarantees as a win for Australian workers, suggesting we can all have our money sooner rather than waiting for retirement.

But when you look at government policy around superannuation, aged pensions and retirement holistically, it seems to all point to one imminent outcome…future retirees will be forced more and more to stand on our own two financial feet.

All of this points to one clear take home message for today's employees and tomorrow's retirees – the need to implement and act on a clear investment strategy to self fund your post-work lifestyle is no longer an option, but a must.

So here are 9 ways you can secure your own retirement fund and ensure you future proof your financial health…

1. Work out your financial goals in retirement. How much will you need to retire on in order to fund your ideal post-work lifestyle? Remember to account for the rise in cost of living that will occur over time, so your end retirement income goal is realistic and workable.

2. Use these calculations to plan your strategy. How will you attain these goals as you move through life? Your investment strategy should account for your risk profile as an investor among other things, and needs to align with the goals you have set for your wealth creation journey.

3. Be hands on with your financial planning. Don't leave it all to someone you pay for advice, as they don't have the same stake in your future as you do. While seeking professional assistance to establish the right investment vehicles and structures for your purposes is essential, you should always be the one in the driver's seat.

4. Seek appropriate counsel. As mentioned above, seek guidance around your ideal investment approach from appropriately qualified and experienced professionals. While you should aim to be as educated as possible when it comes to your preferred asset class and portfolio structure, you need to know when help is necessary.

5. Explore your options. Many of us fail to make a start on planning for our retirement because we act according to what we know. In other words, a lot of us base our financial planning decisions on what we saw our parents do (or not do), or on popular opinion from within our circle of peers. If you want to do more than just keep a roof over your head and food on the table in retirement - if you want to get out and explore the world for instance - it's important to not just rely on your standard employer super fund contributions to pay for your post-work lifestyle.

6. Step out of your comfort zone. This aligns with the last point, in that you will need to venture beyond what you know and potentially enter unchartered waters when you make the decision to take full responsibility for your retirement income. Often you will need to unlearn all the things taught to you about financial planning and start again with an entirely different set of rules. But challenging yourself in this way comes with the potential for great rewards.

7. Consider managing your own retirement fund. Self Managed Superannuation Funds (SMSFs) are fast becoming a popular option among investors, particularly those wanting to secure their future income stream through residential real estate. While there are numerous related expenses in establishing these more hands on structures for your retirement savings, the benefits of driving your own portfolio can be well worth the associated costs. As always though, the structure and approach needs to complement your overall strategy and goals and this is definitely an area where expert guidance must be sought.

8. Think about diversification. Consider the assets that would make most sense as an addition to your portfolio based on your personal circumstances, your end objectives and your preferred strategy as an investor. Then once you have a firm foundation established in this particular investment vehicle and are confident in the performance of your portfolio, consider other potential asset classes. Some investments will be more about long-term growth, while others will be about sustaining your portfolio with a healthy balance of cashflow and capital gains.

9. Take action! It's easy to lose sight of the big picture when there is so much going on in and around our increasingly hectic lives. But the fact is, if you want financial stability and prosperity in retirement, you have to start thinking about tomorrow, today. Don't put it off and don't wait for circumstances to potentially take the reins and lead you in a less than desirable direction. Take affirmative action and take the future of your post-work life back into your own hands.