THE
Financier

MARCH 2005

THE FINANCIERS ASSOCIATION OF AUSTRALIA LIMITED NEWSLETTER

Welcome to the Autumn 2005 edition of The Financiers Association of Australia Limited newsletter.

As usual we try to keep up with any legislative changes in the credit code as well as inserting any interesting general business pieces gleaned from various sources.

A welcome is also extended to new members at this time.

Attack on club over pensioner loan ads

One of the state's biggest registered clubs is under fire for advertising cash loans to its members.

The latest magazine of the Mount Pritchard and District Community Club, known as Mounties, carried an advertisement from Fairfield Cash Loans that especially focused on pensioners and Centrelink clients.

It says: "Do you need cash now !!! We like to say yes! $200 to $2000 loans. Loans for all reasons. Low repayments. Quick approval. Start your credit rating. Pensioners & Centrelink clients welcomed."

Mounties, a bastion of the ALP in south-western Sydney, is where federal Labor leader Mark Latham made his concession speech on the night of his election defeat on October 9.

In the state electorate of Cabramatta held by Fair Trading Minister Reba Meagher, Mounties is a palatial gaming, entertainment and recreation club with a foyer fountain dominated by two leaping dolphins.

Fairfield City councillor Thang Ngo has written to the club demanding that it cease accepting advertisements from cash loan firms.

"The population of Fairfield has the lowest average income of any local government area in NSW," he said. "This is a socially disadvantaged area and community organisations should be doing everything possible to stop people falling into debt by taking out cash loans."

He also called on Gaming and Racing Minister Grant McBride to legislate to stop clubs from promoting cash loans to club members.

Mounties chief executive officer Greg Pickering said the inclusion of the ad in the club magazine was inappropriate.

"It wouldn't have gone in if I had seen it prior to publication," he said.

Mounties, with a membership of 70,000, is one of the top five gaming clubs in NSW, making $219 million from poker machines last year.

Its 2003-04 profit was $14.2 million, up 20 per cent on the previous year, while the annual report declared cash reserves of $40 million.

In October, the club approved a resolution to give a ham and a carton of beer to every life member at Christmas.

By Alex Mitchell
The Sun-Herald

Poor 'to find borrowing harder'. Vulnerable people may find it more difficult to obtain credit in the future, a report has warned.

from a BBC news item on the poor in England

Lenders who specialise in the high-risk sector rely on face-to-face assessments and small "trial-run" loans when assessing applications.

But the study for the Joseph Rowntree Foundation said these lenders were looking into automated credit-scoring.

It fears the most needy may lose access to credit, as lending is more likely to be judged on profitability.

The report by the Personal Finance Research Centre said up to 6.2 million low-income people of working age could not meet fairly modest expenditure without borrowing.

As many as 750,000 of these people have needed to use a high-cost lender.

Credit exclusion

People on low incomes who are forced to borrow from expensive lenders can be charged interest of up to 400%.

The type of credit and how they borrow added to costs, the report found.
For example, people on low incomes were more likely to want quick access to credit without lengthy or intrusive application procedures.

They were also more likely to need opportunities for making late payments or rescheduling loans without incurring extra charges if their financial situation worsened.

As a result, their borrowing needs were largely met by specialist commercial lenders operating at the lower, more costly end of the credit market.

The report calls for better access to not-for-profit lenders and more money for the Social Fund.

The Social Fund offers emergency help in the form of loans and grants to people on low incomes.

“Whatever shape it takes some intervention is required to ensure that poor people have access to affordable credit,” said Professor Elaine Kempson, co-author of the report.

“Left to its own devices, the commercial market will continue to move away from lending to the poorest people.”

Refinance Boom Could Spell Disaster For Millions of Homeowners And Fuel “Housing Bubble” Crisis, **Report Finds**

an article by Demos: A Network for Ideas & Action, is a nonprofit, nonpartisan public policy organisation based in New York

Across the United States, families increasingly rely on credit cards to make up for stagnant wage growth and soaring costs. In order to cope, homeowners are depleting their home’s equity to pay off a growing mountain of unsecured debt. This is a financial strategy fraught with serious consequences, according to A House of Cards: Refinancing The American Dream, a new report released today by Demos, a nonpartisan public policy organisation based in New York.

“Although projections that the housing bubble will burst should have homeowners concerned, many families are already facing a fiscal crisis,” said Javier Silva, author of the report. “Millions of Americans have refinanced their homes in the last three years to pay off credit card debt and to cover basic living expenses, many of them with risky adjustable rate mortgages tied to the Prime Rate. Now, with stagnant wage growth and increasing expenses, families are feeling the pinch and spending their home’s equity to make ends meet. If home values bust, many of these homeowners will be devastated.”

The report, based on extensive analysis of government and industry data as well as academic research, provides a comprehensive analysis of the causes and impact of the mortgage refinancing boom in the United States since 2001. A House of Cards finds that, as mortgage interest rates fell to record levels during the refinance boom, many Americans cashed out home equity to pay down debt and finance living expenses–a quick-fix that only adds to the long term economic burdens of the average family. The net result: the financial well-being of many Americans is at risk as the refinancing boom has created a blurred line between good debt–debt that results in appreciable asset, such as a house with equity–and bad debt, which does not.

Key findings from the report include:

- Households cashed out $333 billion worth of equity from homes between 2001 and 2003, the beginning of the refinancing boom - levels three times higher than any period since Freddie Mac started tracking the data in 1993. A majority of households that refinanced between 2001 and 2003 used cash equity from their homes to cover living expenses and pay down credit card debt, further eroding their home’s cash value which many families rely on for economic security.

- Between 1973 and 2003, homeowner's equity actually fell–from 68.3 percent to 55 percent through the second quarter in 2004. In other words, Americans own less of their homes today than they did in the 1970s and early 1980s.
- In 2002, the financial obligations ratio– the percentage of monthly income to the amount needed to manage monthly debt payments –reached 18.56 percent, a single year record since data started being collected in 1980.
- As the Federal Reserve continues to raise the prime rate, a mortgaged family with an adjustable rate mortgage will experience a significant increase in their monthly mortgage payments. The combination of higher mortgage payments coupled with rising costs of basic living expenses represents a growing financial threat.
- The rise of appraisal fraud fueled inflated home prices over the last several years. Even though it is underreported, appraisal fraud was the fastest type of mortgage fraud reported by major lenders in 2000, and could leave many homeowners owing much more than the true market value of their home.
- Homeowners who reduced their home's equity during the refinance boom could suffer devastating effects if home prices begin to fall. As a result, a homeowner could owe more on their mortgage than the house is worth–known in the industry as being "upside down" in a house.
- "Homeownership has been a bellwether of financial security and a firm foothold in the 'American Dream'," said Silva "While most Americans are by now familiar with the marketing of ready cash from easy home refinancing, few of us are truly aware that when we borrow against our home – our most important asset – we are putting our financial future at risk."

One of the most alarming findings in the report is the role that mortgage fraud, in particular appraisal fraud, plays in the refinancing process. There are growing numbers of third party brokers pressuring appraisers to inflate home values in order to "close the deal" and reap larger fees or bonuses. The consequence can be dire for homeowners who refinance and draw out more cash equity than their home is actually worth. Unfortunately, banks often spend little time investigating the appraisal process, because they normally hold the loans for a short period before they re-bundle and sell them to investment firms.

"This is another example of the unethical and often unregulated methods used to capitalise on the financial challenges facing millions. Many people are defrauded into borrowing more than the fair market value of their homes. They will find themselves in an economic crisis if and when the housing bubble bursts."

The report suggests reforms that would have immediate and long-lasting impact:

- Enact a Borrower's Security Act. New legislation is required in order to ensure that borrowers are protected from the excessive rates, fees and capricious changes in account terms, which are all legal and common industry practices today.
- Enact a National Usury Law. Building on the Borrower's Security Act, Congress should enact a National Usury Law that would prohibit today's penalty interest rates of 30 percent or higher.
- Maintain Existing Bankruptcy Laws For Individuals In Severe Economic Distress. In 2003 nearly 1.6 million people filed for bankruptcy. Congress has considered legislation that would make it more difficult for individuals to recover from financial collapse. The growing presence of families in the bankruptcy courts should warn policymakers of the importance of safeguarding this difficult last resort for consumers.
- Protect Americans from Appraisal Fraud. While Congress passed comprehensive reforms

after the Savings and Loans financial crisis, further reform is needed to protect consumers from the ruinous effects of appraisal fraud. The Appraisal Institute reported that more than 7,000 appraisers have been pressured to inflate appraisals. Congress should ensure that brokers are prohibited from coercing or intimidating appraisers in order to receive a desired property appraisal value.

05-11 Interest free loan club wins ASIC'S 2005 'Pie In The Sky' Award

Thursday 20 January 2005

Like the thought of a car or home loan where you never pay any interest?

If that doesn't appeal, what about 120 per cent returns on investments in China, a slice of a Senegalese mortician's inheritance or getting your super early through the Commonwealth of Dominica?

But surprise, surprise, they're not legitimate offers. In fact, they're the PITS, and are the winners and runners-up of ASIC's annual 'Pie In The Sky' awards for 2005

'ASIC announces the Pie In The Sky awards once a year for the most outrageous financial schemes that are too good to be true', ASIC's Executive Director of Consumer Protection and International Relations, Mr Greg Tanzer said.

The 2005 winner is a so-called 'interest-free loan' that was offered to Queenslanders, with 220 people investing $2.4 million in The Carsworthy Scheme. People were told if they purchased a car through a car buyers club, and borrowed a little more from their financier and invested it offshore, the high returns would repay their car loans. In fact when the offshore investments failed to deliver promised returns, people were left to find their own repayments, often for very high loans which they would probably not have otherwise entered into.

Another case involved Wide-I Design Corporation, a company registered in Vanuatu, FTP Ventures Pty Ltd and Cyrus Strategies Pty Ltd where car or home loans were offered on a similar basis. In that case, ASIC's investigation found the unregistered managed investment schemes promoted the investment of Australian investors funds offshore, and raised at least $2.2 million.

ASIC's investigations found that these two separate schemes combined raised at least $4.6 million from around 400 investors, many of whom were members of church communities on the Sunshine Coast, Queensland.

These illegal investment schemes have since been wound up.

'As people continue to borrow more, ASIC is seeing more schemes like this being advertised. It's high time that people realise that loans without interest are just pie in the sky', Mr Tanzer said.

If you come across or would like to contribute any article that may be of interest for the newsletter please fax on (02) 9299 1433 or post to the Association c/- GPO Box 3463 Sydney NSW 1043.

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