Credit Unit Class
TAMIM Fund

At 31 July 2019

PROJECTED YIELD: 8.1% p.a.

There seems to be no end in sight to the numerous issues resulting in significant uncertainty for global markets and therefore no shortage of volatility. At the risk of being repetitive these include the on-again off-again trade talks / battles between the US and China, the ongoing and deepening shambles that is Brexit, civil unrest that puts Hong Kong on a dangerous precipice as the most prominent financial market in Asia. All of this puts further strain on an already slowing global economy. We are certainly seeing signs of this in Australia as well with continued talk and consensus around further interest rate cuts and even further stimulus through QE (Quantitative Easing). Who would have thought! Below is an anecdote of the real issues being faced on the ground to access credit which of course is one of the most important mechanisms to grease the wheels of economic growth and prosperity.

James couldn't quite believe what he was hearing. As a loan broker, he was working on a car loan application for a mother when the lender he was dealing with questioned a $120 item in her list of recent expenses. Could he ask why the prospective borrower had spent money at a radiology chain? He was taken aback at how potentially intrusive the query was. What if the borrower had a personal and private health issue? What if she'd had a personal tragedy, such as a miscarriage? But he had little choice. In a post-royal commission world, where the banks are struggling to come to grips with what "responsible" lending really means, every dollar of income and every expense can be questioned. It turned out the borrower in question had an easy explanation for the radiology bill - her son had broken his arm and needed an X-ray. The lender was satisfied and the process went on.

Some struggling car dealers believe that loan application rejection rates by the banks are running as high as 50 per cent. When a car buyer wants a new vehicle at about $35,000 to $40,000, things are pretty tight. A lack of loans stems from a lack of new car sales. And fewer new car sales means there are fewer trade-ins – which mean fewer deals can be done in the used car market.

A source inside one of the big four banks says approval rates are running between 70% and 80%. This banker's assertion aligns with one of the country's biggest car dealers, who says there has been a 10% decline in approval rates since the Hayne inquiry, to between 80% and 85%. James, our loan broker

Key Facts

Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Processed monthly
Redemptions:	Quarterly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Quarterly
Management fee:	1.25% p.a.
Performance fee:	Nil
Lock up period:	18 months
Buy/Sell Spread:	+0.20%/-0.20%
Exit fee:	Nil
Administration & expense recovery fee:	Up to 0.35%
Unsecured debt limit:	5% of Fund assets

NAV

	Buy Price	Mid Price	Redemption Price
AU$	$1.0130	$1.0110	$1.0089

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Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2018	-	-	-	-	-	-	-	-	-	0.46%	0.38%	1.02%	1.87%
2019	0.60%	0.54%	0.84%	0.62%	0.61%	1.25%	0.60%						5.17%

Note: Returns are quoted net of fees and assuming quarterly distributions are not reinvested. Past performance is no guarantee of future performance.

above says his numbers show the approval rate for car loans is running at 60%.

Whatever the exact level, it's clear there is a much tighter focus on forcing borrowers to verify income and expenses. James says there is a high level of risk aversion inside the banks, where no one wants to be held responsible for a loan that goes bad. Industry sources say the days of getting instant loan approvals for car loans are over, with the average application taking between 24 and 48 hours to process, depending on the level of information the lender asks for. Given the average period from purchasing a new car to taking delivery is about 17 days, that's more of an inconvenience than a barrier to getting a sale concluded. It does however hurt in the used car market where turnarounds are tighter, given the dealer is trying to sell a vehicle already on the lot.

Perhaps this sense of caution is warranted, given car loan arrears are running at or near historic highs. In March, the latest numbers available, Moody's 30-plus day arrears were running at 2.65%, having risen 25 basis points on the quarter and 77 basis points year-on-year. However, the historic highs need to be seen in some context. Lower levels of new lending mean there is a weighting towards older transactions captured in the arrears data. Falling prices in the used car market have also weighed on loan recovery rates. Payment rates remain steady, and in NAB's view, unlikely to move beyond historic bands any time soon. If there is some light at the end of the tunnel for borrowers and car dealers, it could come from ASIC's planned update to responsible lending guidelines. The other hope of dealers and brokers is that the shift towards risk-based lending models does allow more car buyers to tap better deals, potentially increasing the volume of car finance that a dealer can sell.

The arrival of the comprehensive credit reporting (CCR) regime, and the shift away from so-called flex commissions in the car finance industry – which essentially encouraged dealers to push buyers towards the financier that would deliver the biggest commission – means dealers have an incentive to shop around to get the best deal for potential car buyers. Already risk-based pricing models are creating little niches that borrowers can use to their advantage. For example, one car lender gives its best rates to younger, professional women whom it sees as the best credit risks. Another lender prefers asset-rich older professionals.

But one industry source says while the introduction of the CCR regime – under which lenders can see much richer data sets on borrowers, including potentially positive information such as a strong repayment history – does allow lenders to better tailor rates for specific borrowers, it could also make life harder for loan applicants. Lenders can now see where a borrower has lodged an inquiry with a lender. So a borrower who has approached a number of different lenders during their hunt for a loan might find this works against them down the track.