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Smaller lenders on the march

MICHAEL BENNET
MORTGAGES

Smaller lenders are trying to take a bigger slice of the $1.5 trillion mortgage pie, pushing ahead with growth strategies despite predictions the housing market may have peaked and risks are growing in parts of the market.

HSBC's incoming chief operating officer of retail banking, Katie Docherty, said that with credit growth slowing, the bank was comfortable with its push to "significantly" increase its $10 billion mortgage book.

HSBC's growth ambitions — quietly unveiled last month with the launch of a new campaign offering a 3.55 per cent mortgage rate for owner occupiers — coincide with plans by industry superannuation fund-owned ME to boost its home loan settlements by 40 per cent this financial year. One of the few cheaper lenders in the market, non-bank Loans.com.au, is offering mortgages for 3.39 per cent, undercutting the big four banks that have reduced their discounting and tolerance of higher risk customers.

"For us it's a positive sign we are seeing other smaller players making similar moves as we think that just backs up our view

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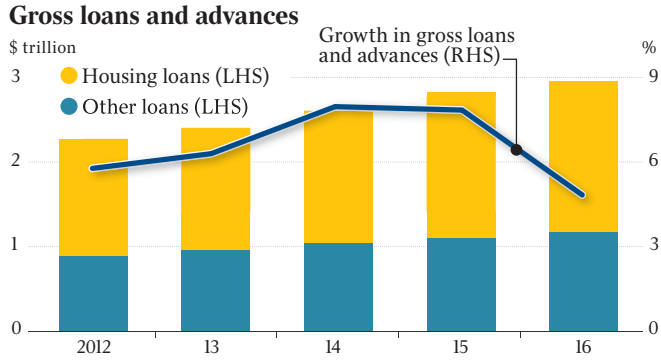

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Smaller lenders on march despite concerns

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and our research," said Ms Docherty, HSBC's chief information officer, who is moving into the role of COO, retail banking.

"We believe there is an opportunity for growth for us where we are in the market right now."

At this month's heated parliamentary review of the big four banks, the CEOs denied that there wasn't enough competition and claimed it was as strong as ever.

But fears have been building about risks in parts of the market, particularly apartments, with UBS recently labelling Sydney as highly exposed to "bubble" risks.

While not providing the bank's targeted growth rate, Ms Docherty said the strategy was for a significant increase in the home loan book rather than just "small, incremental" growth. She said there had been record levels of interest from borrowers in the new campaign and the bank recently partnered with fintech start-up Open Orbit to improve mortgage processing.

Broker Aussie Home Loans claimed there had been a "sharp rise" in property interest following the Reserve Bank's cut to the cash rate to 1.5 per cent in August, with customer inquiries jumping 28 per cent to 16,585 in that month and "momentum continuing".

"The RBA's move to cut rates has certainly stimulated activity in the home loan market," Aussie chief James Symond said last month.

"The rate cut should not cause borrowers to load up on their mortgages, but precipitate a move to take advantage of the rate cuts and squeeze their lender for a better deal."

However, the RBA last month suggested the housing market was cooling, claiming "dwelling prices overall have risen moderately over the past year and growth in lending for housing purposes has slowed".

Governor Philip Lowe also claimed the housing market had "slowed down a bit over the past year" as national price growth eased to about 5 per cent. "I think we are in a better position than we were a year ago, but we are watching it very carefully. It is not in our society's interest for house prices to keep rising a lot faster than our incomes; that progressively corrodes the health of our balance sheet," he told the House of Representatives Standing Committee on Economics.

UBS economist Scott Haslem has, however, disputed the RBA's assessment, claiming there was "renewed momentum" in the housing market, citing strong auction clearance rates.

In the year to August, HSBC grew mortgages by 7.9 per cent to $10.16bn, slower than the prior year's 8.2 per cent growth, according to official Australian Prudential Regulation Authority data. But the growth outpaced the nation's biggest home lender, Commonwealth Bank, which expanded mortgages by 7.3 per cent.

The RBA's most recent data said the broader system grew at 6.5 per cent in the past year, the slowest annual housing credit growth in two years, as demand slowed and borrowers paid down debt with interest rates at record lows.

HSBC had also been reshaping its home loan portfolio, shrinking investor loans by about $500 million in the past 12 months as owner-occupied mortgages increased by more than $1.2bn.

In recent research, HSBC's chief economist Paul Bloxham said the "weight of evidence" suggested the RBA was right and the housing market was cooling, with the critical issue in times of strength being whether rising leverage was the driver.

"Housing price gains that are driven by credit are more worrisome than those that are not. To this extent, the slowdown in growth in housing loan approvals would provide the RBA with comfort that the housing market is cooling," he said.

Credit Suisse strategists have also called the peak in the housing market, finding the big banks were reducing their exposure.

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HSBC is trying to expand, offering a cheap 3.55 per cent mortgage rate for owner-occupiers