

PRESS RELEASE

Southern Cross Financial

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Closure of solicitor funds and low OCR may force investors to risk their money

Falling interest rates, combined with the closure of many solicitor nominee funds – perhaps due to increased compliance requirements – has created a low yield investment environment in New Zealand that may force many investors into taking increased risks.

CEO of a major New Zealand non-bank lender Southern Cross Financial, Luke Jackson, said the low Official Cash Rate means that investors who rely on interest payments to supplement their income will be experiencing increased pressure as they see bank deposit rates continue to fall.

“We are concerned that these investors may be driven into higher risk investments they have not properly scrutinised or new avenues they may be previously unfamiliar with. This could put many of those people in vulnerable situations similar to pre-2007 levels,” he said

These concerns are heightened as many historic – but ‘trusted’ investments avenues – like solicitor nominee funds have recently begun informing investors that they are winding up, possibly due to increased compliance required of them under the new Financial Markets Conduct Act.

Previously these solicitor nominee companies had exemption under the Securities Act as they self-regulated under the Law Society.

Historically there were more than 160 solicitors nominee lending companies in New Zealand, yielding up to eight per cent in interest to investors. The funds are a popular source of funding for mortgage advisers who needed to find alternative, non-bank lenders for borrowers. The number of solicitor nominee funds has declined considerably and will continue to do so.

Mr Jackson urged investors whose deposits with solicitor nominee funds were maturing, or those who are concerned about their falling fixed term investments rates with mainstream banks, to do thorough research on possible new investments and to seek investment advice.

The current environment has also created an opportunity for different avenues of investment opening up to investors, including peer-to-peer lending platforms, which are popular overseas. Essentially peer-to-peer lending involves lending money to people without going through a traditional financial intermediary or institution.

“As a contributory mortgage lender, Southern Cross Financial provides investment opportunities which are secured by property. As a result, we've learned a few things along the way, including the fact that some investments may look good, but the key is in understanding the detail.”

Some things worth considering are:

1. How easy will it be to access your funds should you need them, and at what cost?
2. Are you being charged any application fees or on going management fees?
3. How often is your interest paid to you?
4. What is the underlying security for your funds?

“Most importantly there are many options available. Don't panic, seek professional advice and deal with reputable providers,” he said.

For more information visit <http://scfl.co.nz> or contact your investment advisor