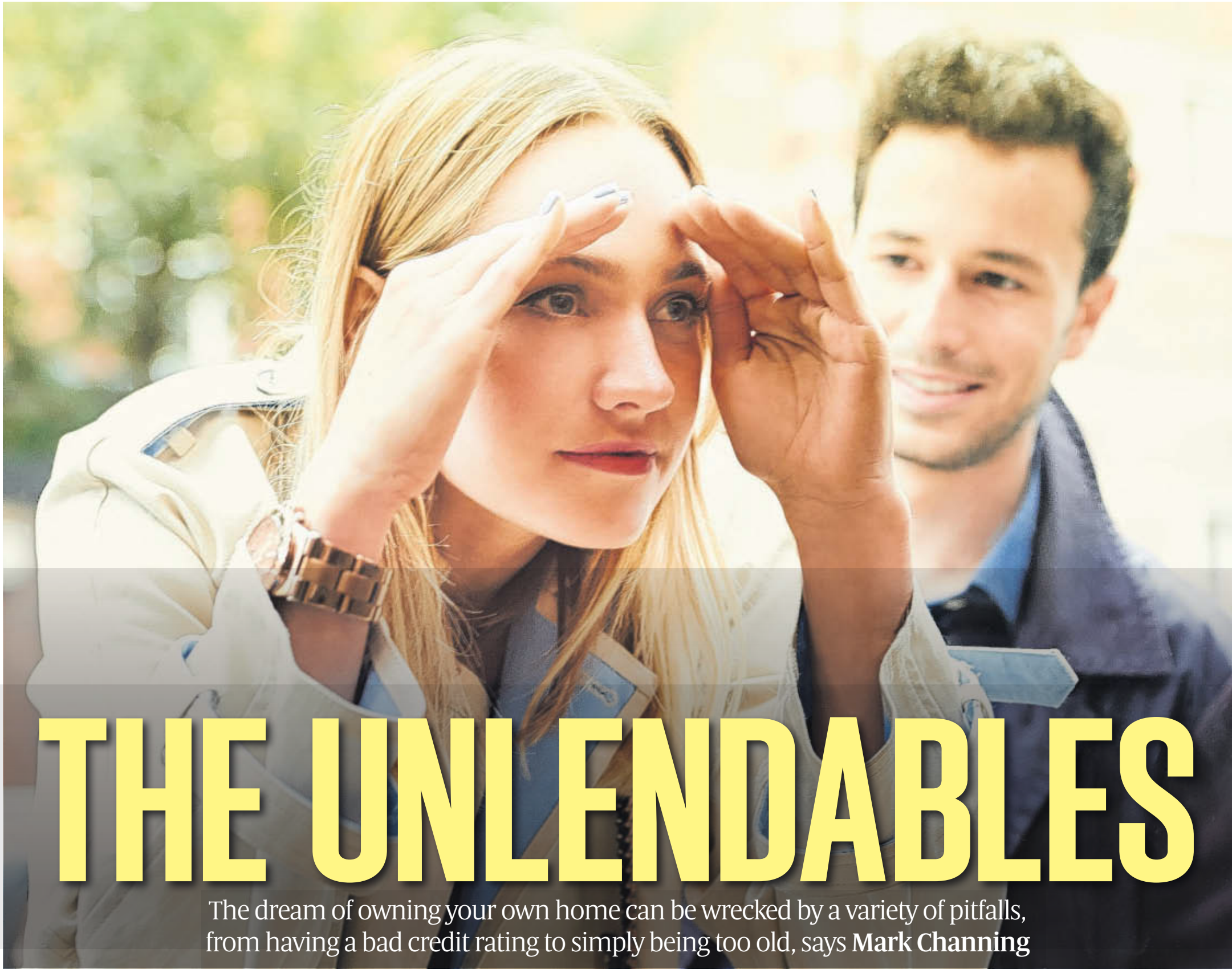




ALAMY



# THE UNLENDABLES

The dream of owning your own home can be wrecked by a variety of pitfalls, from having a bad credit rating to simply being too old, says Mark Channing

HOMEBUYERS desperate to get on the housing ladder are being refused mortgages because they do not fit the mould defined by lenders.

These “mortgage misfits” cannot get the loan they need to buy their dream home because banks believe that lending to them is too risky. This is despite the fact that many of those being rejected have strong earnings potential and may even be in permanent secure jobs.

Mortgage brokers say that they constantly encounter borrowers, such as self-employed workers or older people, who are frustrated at being denied a mortgage because of the strict lending criteria set out by banks.

Stephen Hughes, director of Irish Mortgage Brokers, said: “I take phone calls every week from disgruntled self-employed people who feel they are being unfairly treated when it comes to applying for a mortgage. They are at a huge disadvantage compared with PAYE workers.”

Here’s a note to tell if you if you’re one of Ireland’s mortgage misfits.

## YOU’RE NEWLY SELF-EMPLOYED

Self-employed workers need to show several years’ earnings to get a mortgage, while PAYE workers need only to show their past six months’ wage slips.

“If you’re self-employed you will need at least two years’ tax returns and two years’ certified accounts before banks will even consider lending to you,” said Hughes. “That’s the minimum ask – some lenders will want three years’ figures.”

The requirement to have at least two years of financial statements means that any people who have recently become self-employed, even if they are currently earning a good income, will not get a

mortgage. “If you started a new company in January 2016 then I would say there really isn’t any chance a bank lending to you,” said Hughes.

Even newly self-employed workers able to show three years’ accounts can find themselves stymied in how much they can borrow, because banks base the mortgage on their average annual income, which may not reflect their current earnings.

Michael Dowling, chairman of the Irish Brokers’ Association mortgage committee, said: “There are a lot of set-up costs with starting a business, which have an impact your ability to generate income in year one.

“So if you break even in year one, make €20,000 in year two, and make €40,000 in year three, your mortgage is based on average income across the three years, which is €20,000.”

Self-employed workers refused a mortgage from the mainstream banks may have a better chance by applying to the niche lender Pepper Homeloans, which Dowling said was “a bit more flexible”. “Pepper will still want two years’ figures but it will take a more benign view of your average earnings, and give more credence to current year income,” he said.

Pepper’s mortgage rates, however, are higher than those of mainstream lenders and it is also the only lender to charge an arrangement fee of 0.5% of your mortgage, up to a maximum of €1,800.

## YOU HAVE BAD CREDIT

Banks use your credit rating as a tool when deciding to approve a mortgage, so you will struggle to get a mortgage if you have a bad credit history.

It takes five years from the time a loan is repaid to clear off your credit record, and

lenders will often refuse credit even if your debt problem was temporary.

“If it was a minor blip and there was a good reason for it, you might be OK. But if you missed payments on a mortgage, have a revoked credit card or an unpaid student loan, then the mainstream lenders won’t consider you,” said Hughes.

Again, these mortgage misfits may have better luck applying to Pepper, which targets borrowers denied by mainstream lenders. Garry Manning of the broker Omac Mortgages and Finance in Dublin said: “Pepper is a bit more lenient. So if you had two missed payments on a secured loan, with no current arrears, it would consider you. With an unsecured loan, you can’t have more than six missed payments, with no current arrears.”



I TAKE PHONE CALLS EVERY WEEK FROM SELF-EMPLOYED PEOPLE WHO FEEL THEY ARE BEING UNFAIRLY TREATED

It costs €6 to request a copy of your credit rating from the Irish Credit Bureau, which manages credit reports in Ireland. If you spot a mistake, you should request an amendment.

## YOU’RE OVER 40

The longer you leave it after turning 40, the harder you will find it to get a mortgage. In general, owner-occupier mortgages are available for a maximum term of 35 years, with banks insisting you have your loan paid off by between 65 and 70, depending on the lender.

Bank of Ireland and Permanent TSB give borrowers up to the age of 70 to pay off the loan. KBC will give you until you are 68, while AIB requires that your mortgage is cleared before turning 66.

“This is starting to become a bit of an issue,” said Manning. “I’m coming across many more borrowers having difficulty in getting the mortgage they want because of their age.”

Another problem Manning highlighted was that, even though the retirement age goes up to 68 in 2028, some lenders will lend only up to 66.

Older borrowers are also curtailed in the size of their mortgage. For example, if you wait until you are 45, the maximum mortgage term is 20 years with some lenders, which pushes up your repayments and limits what you are able to borrow.

Those in their late fifties or early sixties may not qualify at all.

“If you’re over 60, it’s virtually impossible to get a loan,” said Dowling. “The problem is, when the loan is stress-tested over such a short term, the repayments are so high that, unless you’ve got a very substantial income, you won’t pass the stress test criteria.”

## YOU’RE PAID IN A FOREIGN CURRENCY

Some banks won’t lend to you if your earnings come from outside of Ireland. This includes people living in the border region who work in Northern Ireland, but live in the Republic.

Harry Dwyer of Moneycare Mortgages & Investments, a broker in Monaghan, said: “Several banks won’t lend on the basis of sterling income and, even if they do, some will count only 80% of earnings.”

According to Dwyer, Haven Mortgages and Ulster Bank will lend to border town workers earning in sterling but PTSB and KBC will not.

“You could have the strange situation of someone who works as an accountant in Northern Ireland and lives 10 minutes away in the Republic but won’t qualify for a mortgage in their home town,” he said.

Irish residents living abroad who want to buy in Ireland also face restrictions. “Bank of Ireland will only lend if you earn your income in sterling, US dollars or Australian dollars,” said Dowling. “AIB will consider a mortgage but there are certain countries it won’t lend from.”

## YOU HAVE YOUNG CHILDREN

Having children can turn you into a mortgage misfit by curtailing how much you can borrow.

“Banks reduce your net disposable income by €250 a month per child when calculating what you can afford. If you’re also paying childcare costs, the amount you can borrow is hammered,” said Hughes.

Dowling said: “Having two children reduces what you can borrow by anything from €20,000 to €30,000.”

## MARKET MOVER PAUL O'BRIEN

Paul O'Brien is head of investment and a senior fund manager with Goodbody Asset Management, which has €8.5bn of assets under management.

O'Brien, pictured, is responsible for the Goodbody Smaller Companies Fund, an actively managed and concentrated global equity fund, composed of 40 small and mid-sized companies.

Sold by New Ireland, the fund is open to lump-sum investors with at least €5,000, or those who agree to invest at least €200 a month.

### Philosophy

The fund applies a value-based strategy to pick fast-growing smaller companies it believes are undervalued by the market.

“We’re looking for companies with attractive and sustainable growth characteristics, but also where the market has failed to ascribe that company an attractive valuation,” said O'Brien.

### Performance

The fund was launched in March last year and is up 25% over the past 12 months. “The backdrop has been favourable. However, the bulk of that performance has been a function of stock-picking,” said O'Brien.

### Buying and selling

Turnover in the fund is low, and stocks are typically held for several years. Earlier this year the fund initiated a position in Galp Energia, a Portuguese natural gas company.

“Energy has been a difficult sector in recent years, so it’s really important when investing in this sector to pick the right stock. Galp has been ramping up production in its Brazilian fields, and we think that it will be able to grow its cash flow by 15%-20% a year between now and 2021,” said O'Brien.

The fund also opened a position in Halma, a leading manufacturer of safety, health and sensor technology.

“Most people will never have heard of Halma, even though as consumers we use its products every day. It offers products that protect people and assets in the workplace, things like fire alarms, door sensors – those boring mundane products that are nonetheless essential,” said O'Brien.

Shares in Halma have risen annually by an average of 18% over the past 10 years.

Another of the fund’s holdings is Moncler, a premium Italian fashion company. “Moncler is well known for its outerwear such as puffer jackets. It has a successful European brand, which it is expanding

into Asia and North America. That offers a really attractive growth proposition, because of the quality of its products and the quality of its brands,” said O'Brien.

The fund has been selling down its position in Actelion, a Swiss biotech company recently bought out by US healthcare giant Johnson & Johnson.

“Actelion is up 70% as a function of the takeover by J&J, so we’ve decided now is a good time to sell out of our holding,” said O'Brien.

The fund also took advantage of strength in the shares of the Dublin-quoted insulation maker Kingspan to sell down its holding.

### Outlook

“Equity markets aren’t cheap, but we think the global growth environment is likely to improve, with higher economic activity and inflation being a driver of improved earnings. This should allow markets to make upward progress,” said O'Brien.



# Buffett's twin would not be able to match his success today

Last weekend saw the release of Warren Buffett’s highly anticipated letter to shareholders. Such is Buffett’s success that I may be conditioned to think only positively about him, but it’s a superb read. On my bucket list is to make the pilgrimage to Omaha, to listen to Buffett at the annual shareholder meeting of Berkshire Hathaway. He is 86 so I can’t afford to put it off much longer!

At last year’s gathering Buffett was quizzed about his large shareholding in Coca-Cola (about 9%). The inimitable investor responded saying he consumed 700 calories of Coke a day. He wished he had a twin who had eaten only broccoli his entire life. “I know I would have been happier, and I think the odds are fairly good I would have lived

longer.” Unfortunately life isn’t a science experiment and we can’t test Buffett’s hypothesis.

However, if Buffett did have a twin (broccoli eating or not), would he have enjoyed the same investment success as his real-life sibling if he was also an investor? Buffett has trounced the S&P 500 in his 50 years at the helm of Berkshire, earning double the index fund’s annual return, every year. The corporate structure of Berkshire and its investment in large insurance companies affords Buffett a large float from unpaid future claims that leverages the company’s own equity. Leverage adjusted, his track record is still stellar.

To the efficient market theory diehards, Buffett is the happy winner of a coin-flipping contest. If you start with enough people you’ll end up with a small number

that flip a highly improbable 10 heads in a row. Repeat success for Buffett’s twin, academics would argue, is akin to the fortune of a lottery winner. I’m not interested in whether Buffett is lucky or skilled – he’d argue both. I’m more interested in whether a modern-day acolyte could repeat what Buffett has done in the next 50 years. And on that question I’m less sanguine.

Markets in 2017 are very different to those in the 1960s. I suspect even if Buffett had a twin, his (or indeed her) chances of success would have been far higher then, than they are today.

It could be argued that some pockets of opportunity existed in the 1970s and 1980s, when technology was cumbersome, access to data was both expensive and scarce and some agents were more informed than others. In



GARY CONNOLLY



today’s world, those informational asymmetries are largely absent, and so are many of the easily exploitable opportunities. Consistent with this, is the increasing frequency with which successful hedge funds are those that tend to rely on highly sophisticated mathematical algorithms, massive computing power and unfettered access to market data.

For many hedge funds, the last decade has been underwhelming, with years of sub-par performance. The HFRI Equity Hedge Index of US equity hedge funds has an annualized return over the past 5 years of only 5.1%. This compares with a 14.1% annualized return for the S&P 500 index over the same five-year period (ending January 2017).

And corporate clients of hedge funds are voting with their feet,

with large US pension funds reducing allocations to hedge funds, or in some cases exiting alternative funds all together.

It doesn’t mean that the more traditional-style hedge fund approach is going the way of the stamp, but market circumstances today are such that merely swimming against the tide of the human crowd is not enough. Now it’s a race against the machine.

The quantification of finance has its upside. The data now reveals that much of the return advantage of consistently successful stock pickers might boil down to simple bias for value, small caps, momentum or quality; factors that academics now concede offer return premia to the overall market.

A fund manager’s skill – or at least a good deal of it – can be replicated by computers. And

systematic solutions tend to be a fair deal cheaper than those requiring human intervention.

This “cookie-cutter” approach to investing is disparaged by some as hopelessly inadequate to capture the complexities of picking stocks. But these phenomena (value, momentum etc) work best at the aggregate level, not the individual stock level. Tilting your portfolio to factors with a high degree of diversification, buying into funds not stocks, you can have your cake and eat it. The only likely obstacle in your way is too much human intervention in the process. So get some advice and then try and stay out of your own way.

Gary Connolly is managing director of iCubed, an investment research and consulting company; contact gary@icubed.ie; @gconnol