

Integer.

14 December 2007

Summit TV

19:42

Business Q & A

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Presenter: Welcome to Business Q&A. I'm talking to Simon Stockley, chief executive of Integer, a new home loan company. Hi Simon.

Simon Stockley: Hi David.

Presenter: You've just founded this - you were at SA Home Loans - it seems a bad time to found a home loans company given that interest rates are going up. What's the background?

Simon Stockley: Its certainly interesting times - sub-prime, Northern Rock, and eight successive interest rate hikes in this country. Yes, challenging times to launch a home loan company - but in many ways an ideal time because we are building the book recognising the constraints and difficulties in the market. We'd like to say at the moment we have the cleanest home loan book in the country given that it is small and we started as you said two months ago.

Presenter: How many have you got after two months?

Simon Stockley: We've processed R500 million worth of applications. The Integer model is predominantly a switch model, so we are refinancing purchases from other banks. That model has a somewhat long tail, so we are in the process of the R500 million in applications that we've processed. We would probably register in the next six to eight weeks R100 million of those.

Presenter: It still doesn't quite answer the question why in a time of rising interest rates with fewer people wanting to take on the debt, and perhaps those that have are already engaged.

Simon Stockley: I think it helps that ours is a price proposition - we don't aim to be the cheapest in the market, but we have come into the market to offer consumers choice. In that choice people shop around and negotiate on the rate. We have a rather strange situation in this country where banks advertise their worst rate, and unless you negotiate and shop around that's the rate that you get.

Presenter: Why is that?

Simon Stockley: It's a peculiarity. It's a market unlike the US, the UK or the Australian market.

Presenter: You'd think you'd sell your strength and try and compete on the lowest price?

Simon Stockley: I think it's a function of the fact that the market has been controlled historically by the big four banks - and it suited them not to compete on price. But the entry of players like SA Home Loans and Integer has changed that - really what customers need to do is to shop around for rate.

Presenter: We've had an interesting time in the last few years with home loans. In previous times if you wanted to borrow money on your house for anything other than the house there were big questions asked. Now they're falling over themselves - or have been - to lend. A lot of people have got a lot of money on the security of their house. Is that going to change given interest rates?

Simon Stockley: The rise in property prices means that people have created equity in their property, and they've realised that prudential financial planning dictates that you should access some of that equity and pay down short term debt. Property prices are not rising at the level that they have been over the last five to six years, but we still are expecting to see moderate increases in terms of property prices, so in the short term I see that trend continuing.

Presenter: Also, I think people forget the rate of growth is slowing, but there is still growth.

Simon Stockley: Its still well above inflation.

Presenter: So if you've got a house and you get a 7% increase on your salary, that means that your debt is 7% less than it was in relation to your salary.

Simon Stockley: Absolutely, and we are coming off historically low property prices, so it has been a question of playing catch-up, and there is lot of liquidity and equity in the market at the moment.

Presenter: How do you see the growth in the next couple of years then?

Simon Stockley: I think more modest. We're not going to see 30% year-on-year. I don't think that was sustainable. But certainly in terms of property prices our expectations are 10% to 14% year-on-year without a problem.

Presenter: It sounds like you are taking advantage of gaps in the market because of this inability to compete by the big banks. It sounds like there's a lot of flexibility there if you look for it.

Simon Stockley: Yes. Integer is a niche player. Our focus is predominantly switching. It's a refinance option.

Presenter: Typically, how does that work?

Simon Stockley: Essentially we pay down the loan to an existing lender and refinance the purchaser - and generally the purchaser will access equity in the property. The Integer offer comes with Internet banking and full transactional banking so it's a comprehensive offering designed to offer customers choice.

Presenter: That is Simon Stockley, Chief Executive of Integer.

Simon Stockley: Thanks very much.