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Banks restrict loans in risky mining towns

Clancy Yeates

Banks are reining in home lending to investors in resource sector hot spots, as lower spending by miners hits regional property markets and prompts banks to reassess their exposure.

Two of the country's biggest banks, Commonwealth and ANZ, have in recent weeks curbed riskier lending in areas that rely on resource industries.

The moves follow sharp falls in rents in mining hubs, at a time when regulators have urged banks to maintain prudent credit standards in the $1.2 trillion mortgage market.

In changes that took effect on Monday, Commonwealth Bank will cap at 8 per cent the rental yield it factors in for new property investment loans in mining towns.

Explaining the policy to mortgage brokers, the bank said rental yields in some mining areas were "not sustainable" and it was minimising the risk of borrowers defaulting.

It comes after ANZ added Queensland resources hub Gladstone and mining-exposed towns Chinchilla and Blackwater to a list of higher-risk postcodes.

Areas on the list – all in Queensland and Western Australia – face an 80 per cent cap on loan-to-valuation ratios for new loans to property investors, while rental yields are capped at 10 per cent when the bank is assessing eligibility for credit.

An ANZ spokesman, Stephen Ries, confirmed ANZ was applying "an extra level of caution" to lending in some mining areas under a policy introduced earlier this year.

Towns that may be affected by the policy were heavily reliant on one mine, or had experienced strong growth in housing, he said.

"We are continuing to lend in these towns and since this policy was introduced in January the majority of applications have been approved," he said.

ANZ and Commonwealth Bank's moves to tighten credit criteria come as banks face pressure to limit higher-risk lending at a time of record-low borrowing costs.

Managing director of mortgage broker Homeloanexperts.com.au Otto Dargan said banks had become more conservative in mining areas after realising high rental yields received during the peak of the construction boom were not sustainable.

"During the construction phase, there's a huge influx of workers so the yields go through the roof, but they can come back down sharply as

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Off track: Queensland rail project is scaled back. Photo: Rob Homer

Soft coal market forces rail rethink

Resources
Brian Robins

The weak coal market has forced promoters of a multibillion-dollar rail project in Queensland to adopt a more limited plan, with common user access, to get it off the ground.

The Hancock Prospecting-GVK partnership wants to link several coal projects it hopes to develop in the Galilee Basin in central Queensland to the Abbot Point coal port. But the downturn in steaming coal prices and demand has forced it to scale back plans amid widespread caution prices and volumes might remain subdued for some time.

As a result, initial plans to develop a dedicated rail line have shifted to establishing an open-access link that will also use an existing rail line along a large part of its route to further lower costs.

From an initial $10 billion project to ship an estimated 60 million tonnes of coal annually, the cost of the more limited plan has been put at $6 billion, with the intention of lifting line capacity and potential volumes, if and when needed.

Even with the reduced scope there is ongoing doubt when the project will get off the ground, although developing a more muted start-up option gives the project a greater chance.

Open access also means that the promoters of other coalmines in the region, such as Clive Palmer's China First project, could use the link if it goes ahead.

On Monday, Aurizon and GVK Hancock agreed initially to build only 300 kilometres of the 500 kilometres of a rail corridor the promoters sought originally.

The agreement also sees GVK Hancock abandon plans for a greenfield link from Collinsville to Abbot Point, instead using Aurizon's link between these two.

GVK and Hancock are expected to be cornerstone investors in the rail link, but with the finer points of their proposal yet to be fleshed out.

"This will also allow a phased development at the Abbot Point T3 terminal to match volumes and

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Dick Smith float doesn't compute

Elizabeth Knight

The float of Dick Smith in early December doesn't stack up – or at least the $520 million price tag doesn't. It just doesn't sound credible to make a three-plus bagger return on an investment held for only a year. On Tuesday morning the Woolworths boss Grant O'Brien, who sold the consumer electronics business to private equity group Anchorage for $94 million, will be asked by his shareholders to explain that commercial riddle.

He either has to try for a mea culpa suggesting Woolworths potentially left more than $400 million on the table because it was incapable of running a consumer electronics chain or had taken its eye off the ball – or a combination of the above.

O'Brien could take some of the heat out of the debate by questioning the value of the upcoming sale by Anchorage. This isn't really politics and it's not playing nice but it is a fair call.

Woolworths undoubtedly did a lousy job selling Dick Smith. It took nine months from announcement to execution and the initial sale price was $20 million but with a potential upside kicker that ultimately dragged up the total by $74 million. (Woolworths could have got more still had it stuck to the original formula to receive upside based on the value of the upcoming IPO.)

O'Brien will probably stick to his existing line that the company is one that operates in big-volume markets with broad-based merchandise – and the smaller specialty businesses like Dick Smith don't fit that cookie cutter.

(This line could expose Woolworths to questions about why its Masters homeware and hardware start-up has been a disappointment from an executional and a financial standpoint.)

He would be closer the mark to say that the consumer electronics

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CPA spurns Dexus on bid

Property
Simon Johanson

Commonwealth Property Office Fund has pulled a deal giving Dexus Property Group and its Canadian pension fund partner the right to exclusive takeover talks following last week's blockbuster $3 billion offer for the fund by GPT Group.

Canada Pension Plan Investment Board and Dexus lost exclusive access to negotiations in their bid for Commonwealth Bank of Australia's listed office trust, a move that opens the door for others including offshore players to mount a competing offer for one of the nation's biggest office landlords.

The property fund's manager, Commonwealth Managed Investments, ended the exclusive talks after Dexus and CPPIB did not raise their $2.8 billion bid in response to GPT's competing proposal.

Monday's announcement allows GPT to begin discussions on the fund as it fights Dexus for control of the $3.8 billion of office buildings the fund, known as CPA, holds in Australia's largest cities. This puts GPT's chief Michael Cameron – a former executive with Commonwealth Bank – in the box seat for one of Australia's biggest property deals since the global financial crisis.

Dexus, which in July agreed to buy a 14.9 per cent stake of CPA, said last week it would not back GPT's offer and was refusing to sell its shares to its rival.

CPA's manager has invited Dexus and its Canadian partner to

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