LENDERS TIGHTEN UP ON

RESIDENTIAL INVESTMENT LOANS

Our industry is encountering a tightening of the residential investment loans. The Australian Prudential Regulation Authority (APRA) is the is the prudential regulator of the Australian financial services industry and oversees banks, credit unions, building societies, etc. APRA's campaign to rein in the investor sector is gathering momentum as we see many lenders adjusting their lending policy and assessment practices, as well as reducing or no longer discounting interest rates on residential investment loans. For example, last week Bankwest announced a change to their lending policy reducing the loan to value rate (LVR) to maximum 80 per cent for investment purposes.

This is best summarised in the Mortgage Business newsletter 20/5/2015 "In recent weeks, Australian banks have started tightening investment lending to comply with expectations set by APRA," according to Bankwest. "These expectations aim to ensure sustainable growth in the home loan investment sector to protect both investors and the home loan market."

APRA's campaign against investor lending started last December when it told banks that it would take steps to reinforce sound mortgage lending practices. The regulator said in December that one of its "specific areas of prudential concern" was lenders growing their investor portfolios by more than 10 per cent per annum. APRA said that the 10 per cent benchmark was not a hard limit, but a key risk indicator based on income growth and market trends. According to APRA's latest monthly banking statistics, for March, some lenders had investor growth above 10 per cent. That is:

- Macquarie Bank's investor lending grew by 79.4 per cent compared to 56.1 per cent for its owner-occupied lending.
- Teachers Mutual Bank had 35.1 per cent investor growth and 10.1 per cent owner-occupied growth.
- ME Bank had 32.4 per cent investor growth and 14.9 per cent owner-occupied growth.
- NAB increased its investor lending by 13.6 per cent and its owner-occupied lending by 7.3 per cent.
- AMP Bank experienced 13.4 per cent investor growth and 6.2 per cent owner-occupied growth.
- Suncorp Bank experienced 12.2 per cent investor growth and 5.6 per cent owner-occupied growth.
- ANZ experienced 10.4 per cent investor growth and 7.4 per cent owner-occupied growth.

There have been many lender announcements over the past week outlining changes to their lending policy and review of interest rate pricing. In addition to Bankwest's reaction noted above, we have had many other lenders announcing changes that include:

- Reduction or NIL discounts for residential investment loans
- Higher discounts offered for owner occupied home loans
- Introduction of max LVR of 80% for investment purchases
- Higher affordability rates used when assessing borrowing capacity for investment loans
- Stricter crtiteria around servicing of external debts
- Removal of SMSF lending for residential investment properties
- Introduction of a 10% liquidity ratio within the SMSF

The above is a summary of recent changes that have been implemented by differing financiers. It is likely that we will see more changes as the weeks pass.

In light of all the various changes amongst lenders in the market, there has never been a better time to utilise the services of an experienced mortgage and finance broker to provide a suitable solution to your lending requirements, in particular if it is residential investment related.