APRA loan standards to impact property investors

Tightening lending standards for investors

The Australian Prudential Regulation Authority (APRA), the banking regulator, has been busy making changes to lending standards. APRA are clearly concerned about the low interest rate environment and the strong price growth in the Sydney property market. We are in an abnormally low interest rate environment which has meant investors can gear up against property with a lot of debt, funded by rental income. This is fine for now, but when rates do rise the affordability of the debt is concerning APRA, as the lenders have been slow to adjust their floor servicing rates for affordability of loans. APRA is also concerned about the rate of growth of the investment lending which they think could undermine the strength of the banks if they are not balanced with home and investment loans in their books. In response to these concerns APRA have been instructing all lenders in the marketplace to limit growth of their investment book to 10% per annum system growth, and to assess serviceability much more conservatively in the future. This will have a significant impact for investors in the property market.

Some of the changes lenders have put in place include:

- Reducing the maximum loan to valuation ratios (some down to 80% from 95%)
- Reducing the discounts allowed on the interest rate, making investment loan interest rates more expensive
- Increasing the buffer for new loans on top of the actual rate 2-3% above the standard rate
- Changing the way existing loans with other banks are assessed using principle and interest repayments not actual interest only
- Using less income from commissions, bonuses, allowances etc. than previously (80% instead of 100%)
- Caps on the rental yield used for rental income (which may be less than actual rental received)
- Increasing the interest rate on investment loans, making the rate higher than they are currently and higher than home loan equivalent loans. This also applies to existing debt

The biggest challenge is for property investors who will find it more difficult to borrow to invest. Those with existing investment loans which are currently on interest only repayments, will find those loans getting assessed as if a principal repayment is being made as well as interest. They also will be assessed at a much higher rate than actual rate, more like 7.25% instead of actual. To illustrate this, a $500,000 interest only investment loan at a typical current rate of 4.5% would actually be paying approx. $1875 per month, (for which the rent should cover). Most lenders will now assume a principal and interest repayment (over 25 years at around 7.25%) of $3615 per month, so the borrower would be expected to have at least $1740 per month extra net income to service the same loan.

AMP have ceased all investment loan lending, and increased the variable rate (but not the fixed rates yet!). CBA ANZ NAB and Westpac (and most mid tier lenders) have increased all existing and new investment loans by around 0.29% by increasing the standard variable rate for investment loans, which is the rate your professional package discount is applied to. They have also changed the fixed rates so that the investment loan rate is higher by about 0.29% than the home loan fixed. NAB interestingly have taken a sensible approach and stated that if you are paying principle and interest on an investor loan they will

not load the interest rate, which is great news for those who are ready to start paying off the investment loan.
ING have limited lending in NSW to 80% of the purchase price for investors.

Although most lenders have changed policy there are still lenders with low exposure to investment loans on their book are still able to lend and grow their share of the investor market, mainly the smaller lenders and credit unions, so we can access some great rates with alternative funders still for those keen to embark or continue on an investment property path.

The other important point is that all the lenders are still keen to lend, so there is a huge difference in the amount you can lend from different lenders. In this climate seeking advice from a Mortgage Broker is very useful to find a suitable solution, working on your own strategy with professionals, rather than relying solely on one lender’s servicing policy.

Jonathan Oxlade

Principal

Total Choice Home Loans