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Investors, Banks and the Economy

In the last three weeks there has been an enormous change taken by banks, no doubt encouraged by the lending authority APRA, to actively discourage investor loans. Some lenders such as ING started the ball rolling saying that they would limit the loan to value ratio (LVR) for NSW properties to 80% of the value of the property. Bankwest has gone further to cap all investor lending at 80% as has the Westpac and subsidiaries St George/Bank of Melbourne. Some have gone further to restrict the LVR they will lend on the basis of an interest only (IO) loan to 80%, irrespective of owner-occupier or investor. Most lenders have revised how they calculate serviceability, where in the past any other property loans were taken at actual repayments made, now most lenders will assess any other debt on a principal and interest basis (P&I) and at assessed rates (mostly around 7.5%) irrespective of what is actually paid on those loans. AMP has just announced it is no longer lending to investors for the foreseeable future.
Remember this is in response to the hysteria of Sydney house price increases in the last two years, ignoring the decade of stagnation before that. Let us not worry about what the rest of Australia is doing.

The banks see their profits taking a hit, so what have they done in response? Most have created two tier pricing and increased interest rates for investor loans, not only on new loans but on existing investor loans also, some lenders increasing by 0.47%. So for a $300k investor loan on an IO basis, expect to pay another $27 a week interest. To help discourage clients moving loans, the banks have very quietly re-introduced application fees, from years of no or minimal application fees, suddenly expect to pay $1k or more to refinance with another lender. Some lenders have gone further, repricing IO loans for both investors and owner-occupiers, so you will suddenly being paying more for an IO loan, perhaps up to 0.30% pa.

Where is the ACCC on collusive behaviour, where is the Government on profit grabs by banks, where is the Opposition in deriding behaviour to hurt Australian working families? <u>Nowhere to be seen or heard!</u>

With the Australian economy already weak (why do you think we have such a low cash rate set by the RBA?), the mining boom well and truly over, does the Government really want to cut down the housing industry to stall the economy totally and to further dampen confidence in their incompetence and to force Australia into recession? Will Abbott claim this is the recession we needed to have as well?

With the changes coming almost every day as the banks are positioning themselves to maximise (short term) profits, it is hard to keep track, as some changes are immediate and others are being spread over the next couple of months.

Does this make it harder to obtain finance for investors – from the bank – YES it will, not impossible but certainly harder that previously. Other non-bank lenders will start taking market share off banks and it will be interesting to see the banks actions once they start losing market share and, in theory, profits.

What are the interest rate offers available?
With the positioning of lenders to gain or maintain market share, there are some very competitive interest rate pricing available at present. Unfortunately most lenders do not pass on their offers to existing clients, so they gear their better rates to attract new clients, not keep existing ones. If you have not refinanced or requested better pricing in the last five years, almost certainly you are paying more than you need to on your loans.
The following is an example of better rates available at present for loans. Lenders often offer better pricing for higher loan amounts and may increase rates for perceived risk such as higher LVRs.

	OO P&I	OO IO	Inv P&I	Inv IO
• $250k loan at <= 80% LVR	3.99% to 4.29%	4.19%	3.99%	4.19% to 4.39%

If we look at the Big 4 major banks, the rates are in the range: 4.58% to 5.4%.

- ANZ will increase investor rates by 0.27% from 10th August

- CBA will increase investor rates by 0.27% from 10th August
- NAB interest only and line of credit loans to increase by 0.29% from 10 August
- Westpac – no declaration yet but some conjecture whether they can due to their computer system!

It seems difficult to say banks do not talk to each other privately about timing (all on 10th August!) or increases all within a fraction of each other.

Fixed interest rates for new investor loans will also increase.

What to do?

You should be receiving a letter from your lender if your interest rate is going to change. Consider that rate and give me a call to see if there is a better rate and product mix for you. There is no cost or obligation for this, just a service provided to clients to help them obtain the best result they can.

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Our mailing address is:
Reid Consultants
19 Vaucluse Street
Berwick, Victoria 3806
Australia

Add us to your address book

Contact details: enquiry@reidconsultants.com.au;
Mobile: 0428 310 165; Office: 03 8786 9960
www.reidconsultants.com.au