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The Changing Lending Environment

Investors,
The lending market place is changing just as is the property market.

After the doom and gloom, crash and burn headline and stories from last year as the GFC worked its way into the Australian Market place and psyche, interest rates came down big time as the RGA moved from having to fight inflation expectations to stimulating the economy and help support the employment effort.

As little as 12 months ago, refinancing was easy, high loan to value ratios (LVR) could be obtained at 95% (24 months ago you could get 105% LVR) and low doc loans were common for the multiple property investor without having to do anything other than self declaring an income.

This landscape has changed radically and lenders continue to tighten their own lending criteria. The 4 major lenders have eaten up some of the smaller lenders (Westpac taking St George and RAMS, CBA purchasing Bankwest, some of the major mortgage managers like Aussie and Wizard being purchased by the majors as well) and other lenders have disappeared as they cannot access securitised funds any longer to be competitive. This has resulted in the majors being able to dictate lending conditions. LVR's above 90% are almost gone for a new purchase, refinance above 80% is likewise very difficult to obtain, cash out (via a line of credit facility) has also disappeared above 80% for most lenders and many are restricting the amount to 10% of the security value or lower.

The servicing assessments of lenders have tightened as well. 12 months ago some lenders added 1.5% to the loan rate to assess a loan application to see if it serviced. This has now gone to nearly 3% additional for many lenders, now using an 8% or 8.5% interest rate as the qualifying or assessment rate.

Low doc loans as we knew them no longer exist where lenders are now requiring a minimum of BAS statements for 12 months, bank statements showing income received, etc. They are full doc loans in all but name.

Some lenders are now restricting LVR's to certain suburbs. Below is an example of a lender 'blacklisting' certain suburbs.

> Properties located in the Victorian suburbs of Truganina and Tarneit are unacceptable security properties for new ING DIRECT loans.

For an investor it is becoming even more critical that your purchase meets lender property criteria and that the rent yields obtained are not too highly negatively geared as cash flow will become more critical as investors look to revalue and refinance to obtain equity for the next property.

The indications have been overwhelming that the property market has continued to improve in price, with high auction clearance rates and higher prices obtained. While the FHOG has assisted, it cannot have added much impetus for existing properties as the benefits have not been that great to make that much a difference. Affordability and the rent increases may have been more a factor than the FHOG for this market segment as people who previously rented have decided to move into their own home. There will be an element of people burnt by the share market crash that have decided property is a more secure and less volatile investment.

The factor moving forward that may restrict price growth will be the ability to obtain finance. It is critical that you set up your finances and structure first and then look to purchase.

Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

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