INTEREST RATES SERIES PART 2:

WHAT DO THE BANKS LOOK FOR WHEN LENDING MONEY

Banks generally look at two main things when lending:

1. Loan to Value Ratio – this is the amount of the loan that you are borrowing compared to the value of the property. This is usually OK if you are buying a new property, or you have cash for your deposit and fees. But, if you want to use any existing equity in your property, this can be an issue. Valuations are lower, and a lot of clients valuation for their property is less than what they paid for the property many years ago. This doesn't mean panicking and selling up. Valuers have been advised by banks to make sure that the valuation used is for sale within a short time. The fact is that most people are selling at the moment are in two classes of people. They either have to sell, or they are wanting to sell their existing property and upgrade.
2. Servicing, or how much you can borrow. This has become a more complicated matter to consider. There are a few things that clients have to be aware of when we review the amount that you can borrow:
   a. Servicing looks at how much your income you have versus your expenses.
   b. Assessment rate – This is the rate that the bank puts as an interest rate on your lending. They add a buffer to allow for any future increase in interest rates. The regulator for the banks, called APRA, recently just dropped the interest rate that the banks have to use from 7% to 2% above your actual rate. If your interest rate is said 3.50%, then the bank will see if you can afford the loan at a rate of 5.50% (where it was up until the beginning of this month at 7%).

      This is going to make a significant change because for someone that says wanting to borrow say $500,000 – with the decrease in assessment rate by the bank. They are going to be able to afford an extra $10,000 of interest payments.
   c. Living Expenses – This is the most significant change that has occurred. Banks no longer will accept a statement from you as a client that you spend an amount per month. The bank now wants evidence, so they will review your last 3 or 6 months of bank statements and credit card statements to check your expenses. For example, they will consider your shopping (like Woolworths, Coles, IGA or other supermarkets), if you are going to hotels or restaurants, car loans, Foxtel, Netflix, Stan or other entertainment.

      That means we have to do a lot more reviewing and checking with clients, and understand their spending habits so that we can discuss with the bank.

      We do not pass judgement on the client's positions – instead, we want to make sure that once a loan submitted to a bank. There are explanations for the expenses and where your money is spent.
   d. Principal & Interest or Interest Only – the banks have been advised by the regulator, APRA, that they can not just allow for interest-only to remain. So, this has meant that some banks will not allow for an interest-only period to extend again once it finishes. This creates more issues for clients as they may not be able to afford principal & interest. They may not be able to refinance to another bank due to the valuation of their property, or the new lending rules that are applied.

      Banks are also wanting the loan to be repaid within a 25-year term (rather than usually a 30-year term) for an interest-only mortgage loan. So, this means that there is less time to pay off your loan, and increases the monthly loan repayments.
   e. Other Liabilities – banks are now looking more closely at other liabilities that clients hold, including their credit cards and investment property loans. Some banks have their loan interest rates to use, while other banks will allow for the actual interest rate or repayment to be used.

So, unfortunately, the headline interest rates and the talk about getting a cheaper interest rate is not able to be obtained in more than 50% of cases, due to the new lending rules. This does not mean to give up, but several times, we have worked with clients over a six month or twelve-month period to be able to have sorted their financial position. So, you can obtain a better interest rate for the longer term.

If you have any questions or concerns regarding this matter, please call the Client Services team on (08) 9227 6300 or email clientservices@austasiagroup.com.

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