



# HOME LOANS NEWSLETTER

April 2016

## Reserve Bank interest rate announcement

Today the Reserve Bank of Australia met to review the official cash rate. They have decided to leave the rate steady at 2.00% again this month. We expect that most lenders will leave their rates unchanged, in line with the Reserve Bank's decision.

## How much money can I borrow to buy a property?



This is often one of the first questions that we are asked by clients when they are looking to buy a home or an investment property.

In this article we focus on some of the recent changes to property loan lending and how they affect the amount that prospective buyers are able to borrow.

The key changes that have occurred over the last 6 months include:

- Higher interest rates for investment property loans relative to loans for owner occupiers.
- Higher home loan assessment rates.
- Higher minimum living expense allowances.

### Higher rates for investment property loans relative to loans for owner occupiers

The interest rates which lenders are offering to those looking to buy an investment property are now generally 0.20% to

0.30% pa higher than the rates available to those looking to buy a home to live in. Although this is only a modestly higher rate, it has reduced the amount that investors can borrow to buy investment properties.

This change has been partly driven by The Australian Prudential Regulation Authority (APRA) which is the regulatory body in charge of the banking industry. APRA has recently begun requiring banks to reduce the growth rate of their investment property lending.

### Higher home loan assessment rates

Even though competitive home and investment loan rates are currently just over 4% pa, lenders will now generally assess a person's capacity to repay their loan at a much higher interest rate, generally between 7% and 8% pa.

Prospective borrowers now not only have to be able to comfortably service their loan at the current rate, but also at a "stress test" of almost double that rate. This may significantly reduce the amount that a borrower is able to borrow.

### Higher minimum living expense allowances

The minimum living expenses that lenders use to assess property loans was previously quite low. Over the last 6 months most lenders have materially increased the minimum allowance for living expenses which they allow for in their loan serviceability calculations. In addition, lenders have also been refining a number of other loan servicing ratios, particularly for loans through Self Managed Super Funds.

If you have obtained pre-approval for a loan in the last 6 months, it may be worth renewing this pre-approval to confirm whether the amount you are able to borrow remains unchanged. If you need any assistance in this area please give us a call and we would be happy to assist you. We can also give you a good indication of what you will be able to borrow to buy a property.

## Our current best interest rates

The best home loan rates we currently have available\*:

- Variable rate of 4.08% pa
- 1 year fixed rate of 4.14% pa
- 2 year fixed rate of 3.94% pa
- 3 year fixed rate of 4.04% pa

\*Conditions apply



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