CHANGES AFOOT IN THE HOME LOAN MARKET

You've probably seen it on the news, or even been notified on your social media feed, that new guidelines for assessing your borrowing capacity were introduced late last year.

What are the changes?

Well, the changes relate to the interest buffer rate.

What's an interest rate buffer?

When you apply for a loan, the lender wants to know that you will be able to repay the money owing. So when they assess your servicing capacity (how much money you have left over at the end of each month allowing you to repay the loan), they do not just calculate if you can repay the loan on the current interest rate (eg 2.5% pa), but they have previously been ***'adding a buffer'*** of 2.5% pa to ensure you can still service the loan in the event of future interest rate increases or other unexpected financial events.

For example, if the interest rate for the loan at the time of offer is 2.5% pa, the lender will assess your application as though you are applying for a loan with an interest rate of 5% pa. ***This is called the interest rate buffer.***

Why have a buffer?

It may seem a little odd that lenders would assess you at a higher interest rate than what is on offer, but in fact it is designed to protect you. By adding a buffer, it ensures you have the means to service the loan should your financial circumstances or interest rate rise.

Lenders will always want you to be in the best financial position to repay the loan. So by adding this buffer, it provides them with a sense of security for you to borrow money in a more responsible way. If you are unable to meet the serviceability criteria at the ***'buffered rate',*** it is unlikely you will be offered the loan.

So what are the changes?

Late last year, the Australian Prudential Regulation Authority (APRA), decided that lenders should increase the buffer from 2.5% pa to a minimum of 3% pa above the loan product rate[1].

Why?

Well, as you know we have been in a very low interest rate environment for quite a few years. The view of many experts is that it is highly likely that interest rates will start to rise sooner than predicted. And there is increasing concern that as interest rates rise, so will the risk in home lending.

More than 20% of new loans approved in the June quarter last year were at **six times** the borrowers' incomes. Looking forward, it is expected that housing credit growth will run ahead of housing income growth[2]. So to counter these rising risks, APRA decided to increase lenders' serviceability expectations.

Who will be impacted?

The increase in the interest rate buffer applies to anyone who is looking to negotiate a new loan. However, investors are likely to be the hardest hit as they tend to borrow at higher levels of leverage than homeowners. The buffer will also be applied across all other debt, including personal and car loans, so this will also impact your borrowing capacity. It is suggested that the impact will reduce the maximum borrowing capacity by around 5% pa[3].

What should you do?

If you are in the market for a new home or investment loan, you need to reset your borrowing expectations lower by about 5% pa. That's $5,000 for every $100,000 you were planning on borrowing (and $25,000 for every $500k).

It's not great news for those looking to purchase, but it is an essential step to ensure that borrowers are well-equipped to service new debt under a range of scenarios and under our guidelines of responsible lending as your broker.

Should you stop looking?

Absolutely not! Property has proven itself over hundreds of years to be a great investment over time. Before you check out of the property market with this news, reach out and we will assess your borrowing capacity and provide the comfort you need to secure the loan you need for the property you want.

As always, we have access to many lenders and they all have their own serviceability criteria. Just make sure you have a current pre-approval and know your new borrowing capacity before you make an offer. That's where we come in.

Don't try to do this on your own. That's why we exist.

We help you find a range of options that will suit your circumstances and calculate your maximum borrowing capacity before you buy! Let's chat soon.

1,2,3 apra.gov.au/news-and-publications/apra-increases-banks%E2%80%99-loan-serviceability-expectations-to-counter-rising

Contact us for our topic sheet **"Be Ahead Of The Game"**

ACCELERATE financial solutions

08 8348 1000

info@acceleratefinancial.com.au

acceleratefinancial.com.au

ACCELERATE group ACCELERATE financial solutions ACCELERATE loans ACCELERATE dealer solutions ACCELERATE car buying ACCELERATE learning