M POINT FINANCIAL SOLUTIONS

AUGUST 2018 NEWSLETTER

Are you a Prisoner on Mortgage Street?

The banks have been rightly condemned via the Royal Commission for some poor lending practices and there has been an outcry for greater control by regulators on their activities. As a result, the banks have responded with strict new policies to curb this behaviour. The problem that's becoming apparent though is that lending policies have been tightened by such an extent that some loan applicants looking to refinance their existing loans and who are creditworthy are being declined. The term 'Mortgage Prisoner' is used to describe these borrowers but who, specifically, does this label cover?

A 'mortgage prisoner' is a person with a home loan that cannot switch funders to a better home loan deal because under the new affordability calculations applied by lenders, the loan they are seeking is deemed unaffordable even though their income and expenses may not have altered since they first obtained their current loan.

There are several factors that contribute to this outcome:

1. Living expense calculations.

Lenders have put this front and centre of their assessments after pressure from ASIC and the banking regulator APRA. Not content to use benchmark living expenses for applicants, lenders are now scrutinising bank statements to get a full picture of applicant's spending habits. They will apply the higher of the benchmark figure or the applicant's actual living costs to their affordability calculations. As a result, lenders are calculating that borrowers have less disposable income to repay their loans than ever before.

2. Income assessments

To add to the conservative nature of lenders' assessments, they're also tightening up on what income they will allow in their income assessments. One example is rental income, which is now discounted, so full gross rental income can't be included in their calculations. There is also less flexibility in how self-employed income is assessed. And credit teams are less generous than they previously were with items such as depreciation allowances, which is impacting assessed business performance.

3. Interest rate assessments

The other major change is how loan repayments are assessed. Previously, a small or no buffer was added on to the actual interest rate to calculate projected loan repayments. The buffer is used to mitigate potential rate increases. Previously a typical buffer would be 1.5% above the actual rate being charged. Now the rate can be over 7.25%, which is nearly double the rate of some variable rate home loans. Buffer rates also

P 02 9929 4177 F 02 9929 5479
LEVEL 1, 68 ALFRED STREET
MILSONS POINT, NSW 2061
MPOINT.COM.AU

M POINT FINANCIAL SOLUTIONS PTY LTD
CREDIT REPRESENTATIVE 492756 OF BLSSA PTY LTD ACN 117 651 760
AUSTRALIAN CREDIT LICENCE 391237

extend to other debts, not just the loan being applied for. The more loans an applicant has, the more impact this feature has on their new application.

The implementation of these policies has significantly impacted borrowers with investment portfolios, as not only is their rental income figure discounted for the assessment, the repayments on their loans are being assessed at inflated levels giving their affordability assessments a double hit.

How can you escape this?
If you find yourself a 'mortgage prisoner', there are three main avenues you could consider to 'escape' your current lender:

- Switch from an interest only repayment structure to principal and interest repayments. By doing so, you will qualify for a lower interest rate and the lender can calculate your repayments over the loan term, not the loan term minus your interest only period. Yes, your repayments will be higher, but the ultimate cost of the loan, the interest payable will be lower.

- Renew your loan term to the maximum available, usually 30 years. This will allow the lender to calculate your repayments over a longer period than your current loan, lowering the required monthly repayments and increasing your borrowing capacity.

- If all else fails and you have the capacity to do so, reduce your loan amount. For example, if you have savings, use them to reduce the loan you are applying for, as a slightly smaller loan may get you to an affordable level under the lenders' new policies.

Seek expert help from Us
Using all or a combination of these options may be the strategy you need. Here at M Point Finance we come across these scenarios all the time. Clients are struggling to get new loans and the policies vary among the lending institutions. The top-tier banks are under scrutiny from the Royal Commission. There are many second-tier lenders who we use to get new deals done. We can help you escape this mortgage prison through our knowledge and contacts.