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JANUARY 2019

The Changing Credit Environment for Borrowers

The home loan rejection rate is up 32 percentage points year-on-year in an environment of tightened lending standards, slowing credit growth, and falling property prices, according to new research.

The latest research from Digital Finance Analytics (DFA), which involves a survey of 52,000 households, has reported that approximately 40 per cent of home loan applications were rejected in December 2018, up from 8 per cent in December 2017.

When divided into segments of the lending space, the highest rate of mortgage rejection was for refinance applications (48 per cent), followed by investors (11 per cent) and first home buyers (5 per cent). The data also revealed that authorised deposit-taking institutions (ADIs) rejected just over 40 per cent of home loan applications, compared to 20 per cent rejected by non-banks.

The Hayne Royal Commission releases its report next month. The report will provide recommendations to the government on proposed changes to the industry. These changes will need to be legislated before they can come into effect however there is no doubt further tightening of credit and how banks review customers will be an outcome.

Already introduced are changes to how credit cards are assessed, open banking and the ongoing implementation of Comprehensive Credit Reporting.

The size of your credit card limit and ability to repay that debt is now having an increasing impact on your borrowing capacity. Whether it is paid off each month

or not the banks are now applying a higher percentage against that limit as a monthly financial commitment. CCR and open banking will help some borrowers as they have good credit records however for those with bad credit it will make loan affordability significantly harder.

Ultimately open banking will shift the balance of power over data to consumers and, ultimately, with client data more accessible and easier to transport borrowers should be able to move banks more easily to ensure they are getting the best financing solution for their needs.

In the short term we expect the tougher lending environment to continue to impact on credit growth and as a result weigh on property prices. The scrutiny by the banks on each loan application will continue to increase and therefore delay the approval process.

SEEK EXPERT HELP FROM US

At M Point Finance our role is to understand the credit environment and ensure we can provide the best financing solution for your needs. With a panel of over 20 lenders we can provide choice to you as a borrower no matter what your credit profile looks like.

Even if you are not purchasing or would like a **Home Loan Health Check** we can review your current situation and provide the right advice and the best loan for your situation.

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