

MAY 2018

NEWSLETTER

Royal Commission - What will be the impact on lending?

The Royal Commission is an investigation, an initiative, set up specifically by the government to look into Misconduct in the Banking, Superannuation and Financial Services Industry. The Commission is reviewing responsible lending and looking to see if banks, lenders and brokers are doing the right thing.

A final report needs to be compiled by February 2019 but until then, one thing is for sure, applications for finance will be significantly harder with more attention to detail by those people applying, those submitting and by those approving applications.

Key Focus on household debt and the ease of obtaining credit.

A lot of experts comment on the level of debt however the commission has focused on the ease that some borrowers have been able to obtain that debt. In particular the level of debt compared to household income. This has meant the servicing level for repayments has increased across the board crimping the amount a client can borrow.

If we look at household debt specifically for Australians, it is approximately 2.5 trillion at the moment, according to the Australian Bureau of Statistics. Assets in total on the other hand, amount to 11 trillion. While household debt may seem high, in comparison to our asset level, it's quite low - with your accounting hat on you'll say we're sitting on a pretty healthy balance sheet.

The Banks are tightening yes, but why are these new measures such a big deal?

Simply put, the banks are under scrutiny for previous bad practices and are now more diligent than ever on borrower's financial declarations. Specifically, they have enhanced their ways of capturing living expenses or as the banks refer to it, your Household Expenditure Measure (HEM). They have also made changes to the ways in which they ask you to verify your information.

Westpac and St George for example, as of April 2018, require 13 expense categories to be completed to capture expenses from groceries, entertainment, telephone, etc. Yes, up to 13 categories in addition to your liabilities and other outgoings.

The aim is to encourage brokers, and their customers, to have more detailed conversations to better understand different financial circumstances – this will help banks with their assessment of any application for responsible lending purposes.

What is 'Comprehensive Credit Reporting'?

Also known as Positive Credit Reporting this new initiative will be a real game changer. Most banks require statements to support your expenses and liabilities, but with positive credit reporting the banks may not even need to get these documents from you to support some of your application information. This change would enable the banks to better assess a borrower's true credit position and their ability to pay a loan. Again, the banks will not even need the old statements because your data is all available at their fingertips to support your application. The big four banks are meant to be fully participating in this new credit reporting system by 1 July 2018.

Our key take-away.

If you're looking at investing or buying in the next 6-12 months more financial information will be needed specifically around expenses. Try living life and having fun within your means because if you're not, the banks will more than likely know about it which could be detrimental to your borrowing capacity – well according to their new HEM measures.

Stronger and more in-depth conversations with your broker to obtain a full picture of your financial circumstances will be paramount to delivering the best possible service and outcome. And while income assessment is being tightened and your living expenses are being fully reviewed, it's important to understand the differences between the policies each bank has.

Talk to us here at M Point Finance if you have any questions and if you want to know more about each banks requirements or recent changes to policy. Banks change their rates constantly and target different sectors of the market.

Give Andrew a call or send a note to alennon@mpoint.com.au and let us do a health check of your current loan. I am sure we will be able to get a better deal.

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