Investors scramble as APRA tightens screws

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Property investors may face an uphill battle to fulfil their financial obligations, as lenders change the field on investor loans in response to APRA scrutiny.

Following on from the warning APRA issued to ADIs late last year that a failure to adequately manage risk in residential mortgage lending would place risk weightings and capital reserves under the regulator's spotlight, and which included a suggestion that annual investment lending growth does not exceed 10 per cent, APRA last month ordered the big four and Macquarie Bank to hold billions of dollars of extra capital in reserve.

In response, several lenders have made significant changes to their investment lending policies. Westpac is reported to have has decreased its maximum acceptable LVR from 90 to 80 per cent, while NAB and ANZ have followed suit in requiring more substantial deposits. A NAB residential property investor loan will have a maximum LVR of 80 per cent and, without leveraged equity from another investment, requires a 20 per cent deposit.

CBA has ceased considering the proceeds of negative gearing in serviceability tests when LVR is higher than 90 per cent, AFR reports that CBA and ANZ have increased standard variable interest rates for investors, and AMP has stopped writing new investor loans and significantly increased the interest rates on existing investor loans.

This has left investors in off-the-plan apartments, who typically pay deposits well before they complete the majority of the purchase when construction approaches completion, finding it harder to borrow the funds to fulfil their contract obligations.

Statistics from CoreLogic RP Data reveal there are approximately 90,000 off-the-plan apartments currently under construction that have been sold but not yet settled, and MFAA Chairman and Vow Financial CEO Tim Brown estimates that 20 per cent of their purchasers have only a 10 per cent deposit.

"We have had some brokers approach us and say they have clients now who are already in trouble," Brown said.

"Also, it is hard trying to find lenders now, with 16 lenders maxed out by APRA's requirements not to exceed 10 per cent growth. So we are finding more and more restrictions are being put on investments."

Brown, who last week spoke to the Australian Financial Review about the difficulties likely to be faced by investors in this new climate, believes that this situation is unlikely to improve until the market stabilises. While borrowers who cannot access investment loans from the big four banks and their brokers will turn in the short term to the smaller lenders that do not use an internal ratings based approach to credit risk assessment, the longevity of this solution relies on those lenders also staying within APRA's growth guidelines so as not to draw the regulator's attention.

"With that amount of volume in the market the second-tier lenders will get chocked soon enough," Brown predicts.