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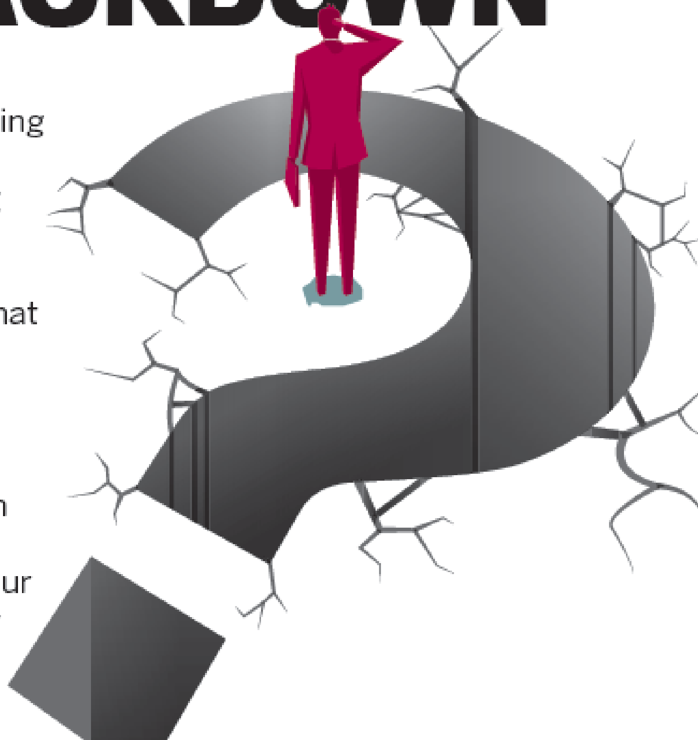
CRACKING DOWN ON THE INVESTMENT CRACKDOWN

Changes to investment lending policies have been happening so fast they can leave your head spinning. But what are the broader ramifications of these changes in the mortgage market, how can they affect your business and your clients, and how can you adapt?



WHEN BANKING regulator APRA announced it would be keeping an eye on the strong growth in investor lending in December last year, warning Australian banks to keep annual growth under 10%, aggregate year-on-year growth was tracking at 11%.

Since then, a raft of lenders have responded, announcing a range of restrictions on their investment lending policies, from tightening credit assessment policies to decreasing maximum LVRs on investment loans and increasing interest rates for investors – each lender citing support for the prudential regulator's actions to ensure lending practices remain sustainable.

But according to the latest monthly banking statistics released by APRA, aggregate year-on-year growth in loans to investors has continued to rise, with growth of 12% over the 12 months to June. So as the market waits for the tougher lending policies to filter through into the investor segment, *Australian Broker* has analysed how the mortgage world has reacted to the clampdown and what it might mean for the future.

Unintended consequences

Looking at APRA's investment lending statistics, it is hard to argue that investment lending hasn't seen significant growth, especially when you compare growth of the investor segment to that of the owner-occupied segment. According to APRA's figures for over the 12 months to June, the growth in lending to investors doubled growth in lending to owner-occupiers, which recorded moderate year-on-year

growth of 6%. On the surface, you can understand APRA's motivations and actions: lending to investors needs to be slowed; the market must restore balance and sustainability.

However, upon deeper inspection, the flaws of such a blunt blanket approach to curbing investment lending becomes more and more apparent. James Symond, chief executive of Aussie Home Loans, explains some of the unintended consequences of APRA's crackdown, which has had negative side effects on the Australian mortgage and real estate markets.

"The positive effect is [the restrictions] will curb investor lending. The negative effect is [the restrictions] will curb investor lending. It certainly will have an effect on investors," he told *Australian Broker*.

"But many of the investors out there today are 'mum and dad' investors, who may have an investment property already or may own their own home and are looking at purchasing another property to negatively gear as part of their assets or portfolio moving forward. It is those investors who will be particularly hurt."

While Symond says the hikes in interest rates are unlikely to be the major deterrent – considering rates are at all-time lows – the tightened regulation around credit assessments and LVRs will.

"... that's what will slow and/or stop the mum and dad investors from purchasing. But it won't stop foreign buyers; it won't stop international purchases – particularly in Sydney where it is very strong in terms of international purchases from China in particular. It is also particularly strong where these purchasers are using cash; these

Ben Kingsley

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> Ben Kingsley, PIPA

purchasers are not borrowing money. They are a bit off the radar from an APRA or finance perspective."

A mind-boggling approach

John Manciameli, mortgage broker and principal of Hunterwood Solutions, which specialises in providing investment advice and finance, says the amped-up surveillance of growth in the investment market is a short-sighted move by APRA.

"This boom in prices is largely a Sydney story and to a lesser extent Melbourne. If you ask anyone in Perth, Darwin or Hobart if there is a price boom, they will tell you that prices are actually dropping. Hence APRA is curtailing the one bright spot of the economy, such as construction and its multiplier effect," he told *Australian Broker*.

"Just when there is an armada of tradespeople leaving the mines looking for work, APRA is putting the reins on construction.

"The whole of the country is suffering because of what is happening in Sydney. It boggles my mind!"

Manciameli also pointed to the sinister effects such regulations could have on the already dwindling first home buyer market. According to figures from the ABS, first home buyers accounted for 15.9% of all home loans financed in June, well below the long-run average of 19.8%.

"The other point to bring up is the detrimental effect on first home owners. There has been a seismic shift in the way first home owners are entering the market that I am not sure the regulators have caught on to just yet," he said.

"That is, most first home owners in Sydney are renting in their preferred suburbs and getting on the property ladder as investors. This may not be the case in other parts of the country; however, this is a trend I can see that will continue as it mirrors the lifestyle demographic desires of Gen Y.

"It's tough enough for [first home owners] as it is, let alone paying higher interest rates and now needing bigger deposits."

In fact, according to Manciameli, the clampdown on investment lending will likely only have a minor effect in the short term and only at the margins, affecting those who would benefit from investing the most.

Is there an alternative?

It is safe to say that the mortgage industry hasn't welcomed the increased regulation with open arms. But with the strong growth in investment lending causing an imbalance in the market, are there any other alternatives?

Ben Kingsley, chair of Property Investment Professionals of Australia (PIPA), told *Australian Broker* that there are.

"I think the best thing that APRA could have done is to coordinate an approach through consumer affairs around the states to say that property investment carries risk.

"We believe that consumer awareness campaign should talk about people who have lost money investing in property. There needs to be a reality check for people out there that property is not a given that you are going to get a guaranteed return. It is just not the case.

"There are people who are investing in property currently in heated marketplaces who are experiencing losses … as we have seen happen when we have had other boom stages in the Melbourne and Sydney markets. Just putting that fear into the marketplace or that conservatism in the marketplace could have done a lot of heavy lifting that APRA and the RBA are looking for in order to prevent a price bubble."

On top of an education piece, Kingsley says speculative investment and property spruiking could be avoided without the negative side effects if the government "had the guts".

"Shares and superannuation are dwarfed in comparison to what residential property is worth to this nation. There needs to be a real open conversation around the benefits of property and who is appropriate to be investing in property," he said.

"This comes back to our biggest point around regulation around property investment. If the government had the guts to regulate property, then we wouldn't see speculation in property and we wouldn't see this overweighting or full access to property investment which is unsustainable in certain markets at the moment."

What does this mean for brokers?

Despite the backlash, APRA has defended recent efforts to slow down lending to investors. Speaking at the House of Representatives Standing Committee on Economics Inquiry into Home Ownership, APRA chairman Wayne Byres said the steps taken by banks to keep year-on-year investment lending growth below 10%, and to hold more capital against their mortgage books, were "common sense.

"We have requested banks to take a prudent view of borrower income, ensure they are not underestimating a borrower's living expenses, and allow for the fact that interest rates will not always be as low as they are today.

"None of this should be seen as anything other than common sense."

So what does this mean for brokers going forward? According to Manciameli, brokers have a big opportunity to place themselves in a position to add real value.

"Brokers should expect more change to credit policies and more changes to rates and more confusion for the end consumer. But I can't think of a better time to add value as a broker. Each lender is going to be reacting differently, and this where a broker is going to shine. By being on top of which lender has an appetite for investment lending, a broker will provide solutions to their clients' investment property aspirations," he said.

"Credit advice will become a lot more multifaceted across interest rates, LVR restrictions, an understanding of a lender's investment book growth, and so forth. The key is communicating this to their clients and to be seen as someone who is on top of these fast changes."

Symond agrees, adding that

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despite the negative reaction to the investment clampdown, the overall mortgage market is still booming and full of opportunity.

"Mortgage brokers are still only 51% of the share of the flow, so mortgage broking in itself still has a long way to go and a large lump of share which they can acquire," he told *Australian Broker*.

"Customers today more than ever need more information and need the strength of that relationship which mortgage brokers can provide.

"Brokers should focus on the broader marketplace, on the various segments – first home buyer, second home buyer, mum and dad investor, professional investor, renovator, etc. There is a broad market out there.

"The investor market no doubt has been a significant amount of flows, in particular the last few years, but the marketplace presents itself with massive opportunity for any professional lender or mortgage broker writing mortgages." AB