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Lenders push new property loans to the limit

Property lenders are pushing new investment loans to APRA's speed limits **Arsineh Houspian**

by **Duncan Hughes**

Lenders are offering new property investment deals that test the limits of the regulator's 10 per cent speed bump, fuelling fears that recent rate cuts might be inflating a property bubble.

The warnings conflict with the Reserve Bank of Australia's (RBA) assurances that the recent rebound in demand will not last.

Lenders are launching new offerings and repackaging products that were shelved after the Australian Prudential Regulation Authority (APRA) imposed a 10 per cent speed limit on annual investment growth in December 2014.

Brokers say an alternative strategy is for lenders to provide more-generous terms to borrowers and deals that they have confidence will comfortably meet terms and conditions.

"Lenders are very choosy about who gets the better deals," said Christopher Foster-Ramsay, chief of Foster-Ramsay Finance.

"The new offers are limited because they want to remain under the 10 per cent limit. If they rush out and do too many deals to too many borrowers they will quickly use up their allocation," said Foster-Ramsay.

Lenders under the 10 per cent growth limit are using what remains of their quota to offer better terms and bigger discounts than competitors exceeding the limit and unwilling to clamp down on their current offerings.

Between March and May the average discount on investment loans more than doubled from about 15 basis points to more than 36 basis points, according to analysis by Digital Finance Analytics (DFA), a consultancy to major banks and financial services companies.

That compares with 27 per cent growth in discounts for owner-occupied refinance, according to DFA.

"It's quite widespread amongst some of the largest lenders and second tier players. This is sufficient to keep home prices moving up and inflating the housing bubble," said DFA principal Martin North.

"Demand appears very strong and now banks are willing, very willing to lend," Mr North said.

For example, Westpac, the nation's largest lender to landlords, is lowering the size of deposits required from property investors to 90 per cent from 80 per cent, according to data from Mortgage Choice.

Other major banks under the 10 per cent investment speed limit are set to announce similar deals to remain competitive, grab market share, of try and offset business lost from the crackdown on lending to foreigners.

Some lenders, such as Teachers Mutual Bank and UniBank, are temporarily withdrawing from new investment lending to reduce annual growth from about 15 per cent.

The banks, which have more than $5.4 billion in assets and 175 members, have hit back with owner-occupiers three-year fixed rates at an advertised rate less than 4 per cent.

The RBA believes the increasing supply of new apartments will soak-up demand and dampen inflationary pressure.

The number of housing loans increased by 4 per cent and average size loan by 5 per cent to $252,000 in the 12 months to March 31, APRA data shows.

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