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Bank demands $1000 buffer before lending

Lenders making it tougher for borrowers, despite lower rates. **Louie Douvis**

by **Duncan Hughes**

A lender is weeding out unsuitable local house buyers by warning they need minimum monthly surplus income of $1000 after deduction of all taxes, costs and expenses to qualify for a loan

Teachers Mutual Bank, which has more than $5 billion in assets and 170,000 members, claims the tough borrowing conditions are in response to regulatory calls that underwriting standards "remain prudent".

"We have to get our investment lending down like all the others," a bank spokesperson said about the surplus that is equivalent to about 20 per cent of after tax pay for the average full-time employee.

The $1000 buffer above 'assessment repayment ability', which is the traditional benchmark for a borrowers' capacity to repay, applies to all investment loans, despite loan-to-value ratios of more than 80 per cent.

Lenders are continuing to toughen borrowing conditions as they lower mortgage and savings rates in response to the Reserve Bank of Australia's latest cut.

"Lenders have tightened investor borrowing across the board," said Jessica Darnbrough, a spokeswoman for Mortgage Choice, a mortgage broker.

"Measures range from tough new financial benchmarks for assessing loan

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serviceability through to scrapping discretionary discounts and increasing scrutiny of other investments used to support a loan application," Ms Darnbrough said.

This is in addition to the tough measures imposed on foreign borrowers.

Lenders are having to juggle lower rates with the 10 per cent speed limit introduced by the Australian Prudential Regulation Authority in December 2014.

Tightening lending was intended to reduce demand in overheating markets, such as Melbourne and Sydney, and improve housing affordability, particularly for first time home buyers.

Big banks have also been toughening lending criteria with measures including higher loan-to-value ratios, tougher scrutiny of documentation and limits on the use of negative gearing.

For example, Australia and New Zealand Banking Group has written to mortgage brokers warning that the maximum age for a property valuation is three months and six months for a contract of sale.

Lenders and buyers are fearful that original purchase prices for off-the-plan apartments might be higher than their market value upon completion, particularly in central business districts where there are high concentrations of high-rise residential buildings.

"Where the valuation date is longer than three months, it is at ANZ's discretion if this is accepted," a spokesman said.

Other lenders, such as P&N Bank, one of the nation's largest mutual lenders, are telling brokers that 'certain income types' will have the annual total of overtime, allowances and commissions 'shaded' – or reduced – by 20 per cent when assessing eligibility.

Police, nurses, teachers, firefighters and prison officials are defined as 'dependable' and do not have overtime payments automatically reduced.

All other occupations where total income is supplemented by irregular income, which can range from taxi drivers to bankers, will be reviewed.

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