

INVESTORS IN FOCUS



What do the APRA announcements mean for your property portfolio?

In December 2014, APRA, the prudential regulator of the Australian financial services industry, announced an increase in the level of supervisory focus on residential mortgage lending.¹

This announcement was directed at Authorised Deposit-taking Institutions (ADIs) – corporations authorised under the Banking Act 1959 including banks, building societies and credit unions – and was a response to a number of indicators: strong growth in investment property loans,² high Australian household debt, accelerating credit growth and historically low interest rates. APRA reiterated the seriousness of its intentions in May of this year,³ with chairman Wayne Byres saying that: “ADIs with more aggressive practices should fully expect to find APRA increasingly at their doorstep.”⁴

On the upside, APRA did not introduce across-the-board increases in capital requirements or caps on any particular types of loans, but focused its attention on a few key areas.⁵

Higher-risk mortgage lending
Lending that is considered “higher risk” includes high loan-to-income loans, high loan-to-valuation loans, interest-only loans to owner-occupiers, and loans with very long terms. APRA warned ADIs

that increases in this type of lending could trigger further supervisory action.

Investor Impact: ADIs are likely to make it harder to get a loan without a decent deposit or with limited cash flow.

Investor loan growth

APRA set a benchmark of 10 per cent portfolio growth for lending by ADIs to property investors – ADIs exceeding this threshold may attract further scrutiny.

Investor Impact: ADIs will probably try to slow their investor loan portfolio growth so that they don't exceed APRA's benchmark. This could include removing discounts on investor loans, so cheap credit may be harder to come by.

Serviceability assessments

Serviceability means a borrower's ability to make their loan repayments. APRA said that ADIs should include an interest rate buffer of at least 2% above the loan product rate and a “floor” lending rate of at least 7% when assessing serviceability, whichever is higher.⁵

Investor Impact: ADIs are likely to apply the suggested (or higher) interest rate buffer and floor when assessing serviceability. Borrowers will need to factor this in when working out how much they can afford to borrow.⁵

Continued next page.

Welcome

Investor home loans are in the spotlight in our Spring newsletter, with the Australian Prudential Regulation Authority (APRA) laying down new guidelines that may affect your portfolio. In this edition, we take a closer look at what it all means for you.

If you're a keen buyer, we have some insights on how you can spring-clean your budget to help you save and we cover seven tips for winning at auction.

If you're in the market to sell, check out our tips for styling your home.

We're interested in helping you and your family. So, if you'd like any advice relating to your financial arrangements, please don't hesitate to get in touch.



We can help you

- Get a home loan
- Reassess your current loan
- Refinance your existing loan
- Find a commercial or business loan
- Consolidate debt and free up equity



TERRITORY LOANS

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Increased capital requirements

Additionally on 20 July, APRA announced an increase in the amount of capital that a number of ADIs will have to set aside for certain Australian residential mortgages exposures.⁷ The change comes into effect on 1 July 2016 and impacts those ADIs accredited to use the internal ratings based (IRB) approach to credit risk.⁸

Investor impact: Affected ADIs may look for ways to offset the increased capital requirement which may mean that discount rates may be harder to find.

Different lenders are taking different approaches to meeting the APRA guidelines, increasing the complexity of investment home loan approvals.

If you would like help in navigating lender requirements or would like to know more about how these changes could affect your personal situation, get in touch with your broker today.

¹ "APRA announces further steps to reinforce sound residential mortgage lending practices", 9 December 2014, www.apra.gov.au

² www.abc.net.au/news/2015-05-12/investors-drive-home-loans-to-a-new-record/6463810

³ www.apra.gov.au/adi/Documents/Draft-PPG-APG223.pdf

⁴ www.abc.net.au/news/2015-05-18/investor-home-loans-tighten-as-regulator-clamps-down/6477134

⁵ www.apra.gov.au/mediareleases/pages/14_30.aspx

⁶ www.afr.com/real-estate/residential/low-rates-lead-banks-to-increase-home-loan-buffers-20130922-jh03l

⁷ www.apra.gov.au/MediaReleases/Pages/15_19.aspx

⁸ www.smh.com.au/business/banking-and-finance/apra-lifts-mortgage-capital-on-big-banks-by-billions-of-dollars-20150720-gily5r.html



HOW TO SPRING CLEAN YOUR BUDGET TO BUY A HOME

Buying your dream home is one of the biggest and most exciting purchases you are ever likely to make. Saving the necessary deposit can be difficult without making a few adjustments to your finances. Spring cleaning your budget is an important step in helping make this dream a reality.

The first port of call is to look at how much you want to spend, how much you already have saved and any additional fees and charges that you may incur when making your purchase. Budgeting helps manage your spending and regular outgoings and allows you to direct the surplus into savings. When preparing your budget, it is important to consider your current financial situation by working out your priorities – how much you need for basic living expenses and the little things that you can do without.

Budget basics

- Begin your budget by listing all sources of regular income. There are plenty of online resources and templates that you can use to start.
- Collect your bank statements, bills, accounts and other regular expense records to give you an indication of how much you spend each month.
- List your outgoings (with large items first) by breaking them down into two sections: fixed and variable. Fixed expenses don't change from month to month and include things like: car loans, rent, personal loans repayments etc. Variable expenses change regularly and include groceries, utility bills, eating out and entertainment.
- If you categorise your expenses, you have the flexibility to start by making reductions to the non-essential items in the variable spending before addressing your fixed and more essential items.
- Compare your expenses against your income to and work out where adjustments can be made. If you find that you are not left with as much as you wish, even the smallest changes can make a difference.
- Give yourself a realistic timeline and encourage yourself to stick to your budget. If you have an exciting goal to achieve, the sacrifices are more than worth it.

Read. Watch. Listen.



Spring is the perfect time to spruce up the home. For a little inspiration here are three great home blogs that will certainly get the creative juices flowing:

The Design Files: Heralded as Australia's most popular design blog, The Design Files has been taking readers into the homes of creative and prominent Aussies since 2008. Jam-packed with beautiful images, interviews, art and gardens info; it's a one-stop shop for everything stylish. www.thedesignfiles.net

Homelife: Focusing on life closer to home, Homelife is a joint venture between the editorial teams of Inside Out and Country Life magazines. An easy to navigate blog that has a strong DIY focus, Homelife is a perfect resource for renovators on a budget or people after some simple tips and tricks for the home. www.homelife.com.au

Of Iron and Oak: One for the guys, Of Iron and Oak is not just about interior style, but has advice on gardening, cooking, even sustainable living. This is a popular blog for the man whose home is definitely his castle. www.ofironandoak.com



Spring, in particular September, is the best time of year to see the **Aurora Australis**, otherwise called the **Southern Lights**. Similar to the Aurora Borealis of the Northern Hemisphere, the Aurora Australis is created when the sun releases massive bursts of solar wind and magnetic fields into space, creating a spectacular light show in the sky. With vantage points all over Australia, information can be found online. Arguably though, the best place to view the phenomenon is Tasmania. If you're on the mainland, it may be a good time to book a holiday!



If you enjoyed the *Serial* podcast, there is another podcast you will certainly enjoy called **Stuff You Should Know**. Updated every few days it will give you boundless conversation starters to use at your next party.



SEVEN TIPS TO WIN AT AUCTIONS

Going to auction can be a gamble. But there are a few simple things you can do to help win your dream home.

1 Kick the tyres first

Inspect the property multiple times with the right specialists. Consider any required inspections – including building and pest – before you go to auction. Engage a solicitor or conveyancer to review the sale contract. Once you exchange contracts, there's no turning back!

2 Check the rules

The rules for participating in auctions may differ across the States and Territories. You should check with your solicitor, conveyancer or real estate agent, if you are unsure of the rules that apply. In some States or Territories, you may need to register to bid at auction. Find out whether you need to take formal ID to bid.

3 Make sure your finances are in place

Make sure that your loan pre-approval is good to go. Don't forget that pre-approvals only last for a certain period, so if you've been looking around for a while, make sure it's still current.

If you are the winning bidder, you may need to pay a deposit straight away. Find out whether this is the case and make sure that you have the funds available.

4 Do your homework

Do in-depth research on the property's market value and valuation expectations. Analyse the pros and cons of the property's characteristics such as size, location, physical condition and proximity to amenities and compare to other similar properties that have recently sold. This important information can help you determine the price you're willing to bid.

5 Set your limits

Doing so ensures that you bid in a strategic manner and with more confidence. This may help to reduce doubt as you submit your bids and prevent you getting emotionally competitive or over-extending.

Be prepared to go to a figure like A\$793,000 rather than A\$790,000. This is a relatively small difference in the context of the overall price, but it can be enough to dissuade other bidders and help you win at the auction.

6 Get familiar with the auction process

Attend auctions where you are not planning to bid on the property, so that you can watch and learn how they work. Observe the processes and any strategies the winning bidder employs that seem effective. If you find the whole thing overwhelming, you may want to consider taking on a buyer's agent or asking a family member to bid on your behalf.

7 Auction day tips

Try to ensure you have direct line of sight to other bidders and the auctioneer.

Get ready to pounce back with your bids quickly after a competing bid. Look the auctioneer in the eye, then announce your bid clearly and confidently.

Try to stand by yourself and do not turn to your support crew for guidance. These actions may give other bidders the impression that you have a lot of cash in your pocket, and may discourage them from bidding against you.

Consider making your first bid close to around the reserve price. This indicates that you are serious about buying the property and moves the auction into a more realistic phase.



POUNCE BACK QUICKLY AFTER A COMPETING BID, ANNOUNCING YOURS CLEARLY AND CONFIDENTLY

How to style your home for sale

There are many considerations when selling your home and one of the most important things is how it is presented. First impressions matter and, if you ensure that your home looks its best, your asking price will appear more acceptable to potential buyers.

If you decide to style your property yourself, here's a list of things you may wish to consider to improve the look and feel of your home:

Research other properties in your area and price bracket to see how they have been presented. Do they seem overpriced or desirable?

Clear any clutter, yet maintain a homely feel. You want your house to still feel like a home, however, removing unnecessary items can not only make rooms more appealing but can often help them appear larger.

Touch up. Ensure that any marks or chips on walls are touched up before open day. A thorough clean is also needed to make your home feel more liveable. Wash soft furnishings or purchase some 'on trend' items to freshen living areas.

Brighten and lighten. If you have blank walls in your home, consider purchasing art or mirrors that will style up your home and liven up bare spaces. Adding additional soft lighting will also help rooms appear more open.

Street appeal. Ensure that gardens and exteriors are tended to including the removal of any weeds and cobwebs. Adding outdoor furniture will inspire prospective purchasers on how outdoor space can be used.

Sensory experience. Fresh flowers and candles add a nice touch and stimulate the senses. Potted plants can also be a nice touch to breathe life into interiors.



2014/2015: THE YEAR THAT WAS



From today's vantage point, the 2014/2015 financial year was certainly an interesting one. We saw interest rates cut further to bring them to the lowest levels in a generation, helping to fuel higher capital city house prices. We also saw the ongoing effects of the end of the mining boom and a fall in the value of the Australian dollar – good news for exports, but less so for Australians travelling (or shopping) overseas. And although lower interest rates were a plus for those paying off mortgages, consumer sentiment was wary. Australians were working to pay off debt, and were most concerned about funding their retirement and the future of their families.¹

House prices: Bubble or no bubble?

The first RBA meeting for the 2015/2016 year saw no change to interest rates, as expected. February and May's cuts – bringing the cash rate to an historic low of 2.0% — helped capital city housing values to climb almost 10% last financial year.² Is it a bubble and will it burst this year? That depends on who you talk to, but a closer look at the capital cities data shows that while Sydney's house price growth for the period was a whopping 16.2%, Darwin's was negative, at -2.9%.

So, if there is a bubble, it's certainly not nationwide. And CoreLogic RP Data's head of research, Tim Lawless, suggests that unless there's a serious trigger event such as higher unemployment or higher interest rates: "... it is unlikely we will experience a significant correction in dwelling values."³

But he does sound a note of caution:

"However, the longer this run of growth continues across our largest capital cities, the more susceptible the housing market becomes to changes in the economy or broadly across household finance."⁴

2015/2016: What to expect

So what's ahead? The International Monetary Fund (IMF) predicts for Australia that over the next couple of years:

"... activity should gradually pick up ... supported by strong resource exports, accommodative monetary policy, and rising confidence."⁵

The RBA has kept rates low to support borrowing and spending, while keeping a close eye on the housing market, especially the Sydney and

Melbourne markets. Although an increase in the cash rate could potentially cap those house price rises, it could also put a dampener on business borrowing and consumer confidence, both vital for the economy. It's a juggling act.

Anyone planning to buy a home or investment property needs to look closely at the data for their area, and be aware that any future movement in rates is likely to be up.

As for the Australian dollar, according to the RBA, further falls (mostly against the US dollar) are 'both likely and necessary'.⁵ It might be a good idea to get that overseas holiday in now. If you would like to know more about our FY15 wrap up, and how it could affect your personal situation, get in touch today. We're always happy to offer advice, research, and the latest data to assist.

¹ NAB Quarterly Australian Consumer Anxiety Index – Q2 2015

² www.corelogic.com.au/media-release/capital-city-dwelling-values-9-8-higher-over-the-financial-year

³ CoreLogic RP Data Home Value Index Release, 1 July 2015

⁴ www.imf.org/external/np/prms/2015/062415a.htm

⁵ www.rba.gov.au/media-releases/2015/mr-15-11.html

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