Wednesday, 4 June 2014

To: APRA

Re: Draft prudential practice guide on residential mortgage lending

Thank you for the opportunity to comment on the draft *Prudential Practice Guide 223 Residential Mortgage Lending*. As one of Australia's major mortgage brokers these changes have the potential to impact us and our clients so we would like to be involved in the feedback process.

Overall comments

It appears that many of the guidelines have already been adopted by the major lenders. Most appear to be prudent and reasonable; however some may cause problems for the industry and its clients if they are implemented by the ADIs.

Living expenses

APRA has suggested that a buffer should be added to living expenses depending on the customer's income. While on the surface this makes sense, this is covered in some ways already:

- The buffer on the assessment rate has a larger impact for larger loans.
- Lenders ask their borrowers to estimate their living expenses and they then use the higher of the HEM figure or the customer's own assessment.
- Discretionary expenses such as gym memberships and private school fees are already included as expenses when calculating a customer's borrowing capacity.

This could cause some doubling up of living expenses, causing high income earners to be penalised.

In addition to this, discretionary expenses can be cancelled in the event of financial hardship. They are not an ongoing commitment in the way that a loan payment is. It is not unreasonable to expect customers to limit their discretionary spending in the event of rising interest rates. That's the whole purpose of the RBA increasing rates.

We would suggest analysing the data of major lenders to see if there is sufficient evidence to suggest that high income earners default on their loans more often in a rising interest rate environment.

Interest only loans for owner occupiers

We agree that most owner occupied loans should have P&I repayments. However there are many exceptions to this, so it is important that banks recognise this and continue to offer this to clients where it is suitable.

T : 1300 889 743
F : 02 9475 4466
E : enquiry@homeloanexperts.com.au
A : Suite 2, Level 1, 132 - 134 Burwood Road
Burwood NSW 2134
M : PO Box 532 Burwood NSW 1805

We assume that most mortgage brokers would recommend an interest only loan to be not unsuitable as part of their preliminary assessment, so in many cases this risk is already mitigated.

However as additional protection, the banks could potentially query the reason why interest only repayments have been requested and then make a judgement call as to whether or not it is suitable for the client.

High LVR loans

We regularly see the lender with the lowest price or most aggressive policy for high LVR loans change every few months.

While it is good for lenders to monitor their high LVR lending and to limit it if it spikes, it would make more sense for them to carefully choose their policy and pricing up front to prevent spikes in high LVR volumes from occurring in the first place.

It's obvious to us as brokers which lender is receiving most of the high LVR loans and which lenders will then change their policies a few months later.

Repaying a loan from superannuation

We strongly believe that it should be an acceptable exit strategy for customers to repay the remainder of their home loan using a lump sum from their superannuation.

There are many people who have lost assets due to a divorce or for whatever reason are buying a home after the age of 45. Many of these clients will not pay off their home until they retire. It is better for them to have a small home loan balance when they retire and for them to use their superannuation to repay the home loan than it is for them to be locked out of owning a home altogether.

Downsizing to repay a home loan

It is also important that banks recognise that downsizing homes at the time of retirement is not a form of hardship. Many banks will not approve a loan if the borrower will need to downsize at the time that they retire.

This is a perfectly acceptable exit strategy, many people downsize when they retire even if they do not have a home loan.

Sincerely,

Otto Dargan
Australian Credit Licence 383528
Home Loan Experts