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SUBMISSION: APRA consultation on revisions to prudential practice guide APG 223 residential mortgage lending

To: General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Home Loan Experts is a specialist mortgage brokerage focused on assisting good borrowers who are not well-serviced by our industry. Typically, this is because their situation is complex and requires more expertise; or because the major lenders don't work with that type of customers.

Unlike the majority of brokers who are salesmen, we are credit experts in the lending guidelines used by both the major banks and other lenders. We have an extensive in-house credit assessment process which we complete before applying with any bank or lender. We ensure prudent lending responsibilities are well complied with when it comes to assessing a borrower's affordability.

We understand APRA has issued a letter to all ADIs in order to seek views on proposed revisions to its guidance on the buffer and floor rates currently set out in APG 223; we would like to take this opportunity to provide some insights from our front line customer-facing staff as this may give the regulator a different perspective compared to other consultations.

Overall, there was a need in the past to have a floor assessment rate in case interest rates were to rise and that this need has now passed. On the 4th of June, 2019 RBA cut the cash rate by 25 basis points to a record low of 1.25%, and the majority of banks followed and passed on the full rate cut to their home loan rates. We have seen about 50 lenders who have already lowered their fixed rates in the last two months to stay competitive; one customer-owner financial institution has cut its one-year fixed mortgage rate (for owner-occupiers paying principal and interest) to 2.99 per cent, the industry-first to offer a home loan rate below 3 per cent.

The speculation that RBA will carry out further rate cuts this year is a necessity for a weakening economy including the forecasts for the rising unemployment rate, weak gross domestic product (GDP) growth and falling house prices are consistent with the need for policy to ease through the full course of 2019. We agree that given the low interest rate environment may persist longer than originally expected, the gap between actual rates paid and the floor rate may become unnecessarily wide as suggested by your chairman Wayne Byres.

We feel that an unintended consequence of this policy is that there are now many investors who are 'mortgage prisoners' and who are unable to refinance to lower interest rates. Some lenders have taken advantage of this by increasing interest rates for investors. This is a significant loss to the Australian economy as these customers could be using this money to invest or spend rather than it going to lender profits. Where APRA is able to help these borrowers to refinance then this will be a significant win for the economy even if it is not directly in APRA's remit.

We agree with APRA's proposal to remove the floor assessment rate, and using 2.5% as a buffer above the actual rate charged to the customer is appropriate to ensure prudence lending practice through the application of an adequate buffer to reflect the inherent uncertainty in credit assessment. The changes will likely lead to an increase in the maximum borrowing capacity for a given borrower, yet not compromise the maintenance of sound lending standards.

We note that many lenders assess negative gearing benefits at the actual rate rather than the assessment rate and we believe this is overly conservative. It is reasonable for them to assess negative gearing at the same rate that they are assessing the new / existing mortgage at. This would have a significant effect on helping investors who are mortgage prisoners.

The need for a floor assessment rate may arise in the future so the ADIs should set their floor interest rate to be 0% rather than to remove it from their systems / serviceability calculators entirely.

We believe APRA should also consider some other changes to assist ADIs & borrowers without compromising responsible lending. For example:

- Allow sophisticated / high net worth investors to prove serviceability using interest only repayments on investment loans where they have an exit strategy in place such as selling an investment property.
- Work with ASIC to give better guidance to ADIs on living expense assessment as this is causing major operational issues and a poor client experience. For example, allowing a signed declaration from clients that they will make a reasonable reduction to their discretionary living expenses, where the final figure remains above HEM. Previously we've sent our recommendations to Royal Commissions regarding this subject matter.

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We welcome these changes as it will help some borrowers who can't quite access a mortgage currently to get one; however, it is unlikely to result in a rebound in the housing market.

Sincerely,

Otto Dargan
Managing Director
Home Loan Experts