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Coping With Tougher Lending Guidelines

Lending conditions are getting tighter as the banks minimise their exposure to risk. So, as an investor, what can you do to ensure you get the loan you need?

The finance sector has changed significantly in the last 12 months, and we're now in an environment where lenders have a lot less interest in risky borrowers—and more in the rock solid candidates.

Banks and non-bank lenders alike have tightened their lending practices.

“Their appetite for risk has changed significantly”

There are many road blocks you might encounter while sourcing a loan in the current market, but there are things you can do to boost your borrower profile and improve your chance of gaining access to finance.

Low LVR (Loan to Value Ratio)

Banks have ramped up their lending criteria in favour of low-risk borrowers, particularly those who can offer a solid deposit.

“We've seen that a fair bit, where banks are becoming very conservative with the LVRs they're prepared to offer”

“They're tightening up across the board, and I think it will remain that way for at least another 12 months, until they see the true impact of what's happening around the globe.”

Anything more than an 80% lend is considered high risk in the current

market, so Lenders Mortgage Insurance (LMI) premiums are being affected as a result.

“This is because when valuations drop, you're borrowing more as a percentage of the purchase price”

If your bank is reluctant to offer you a high LVR lend—or they attach a hefty LMI premium to the deal—that is your signal to shop around. Currently, every lender is operating with a different agenda, and some will work harder for your business than others.

Low-Doc Borrowing

Many low-documentation loan products have been withdrawn from the market in recent months, so low-doc borrowers have fewer options now than they used to.

“A lot of the non-bank lenders have minimised their involvement in the market and, because the banks have increased their stranglehold, consumers have less choice”.

However, it's important to remember that “banks make money by lending money to people”

To minimise their exposure, the lenders that do still offer low-doc mortgages have increased the lending criteria attached to these products. “They're looking for things like a reduced LVR and for higher LVR borrowers, they want more documentation to support it.”

‘WHAT AN OPPORTUNITY’

Given that residential prices softened over the final quarter of last year, interest rates dropped to

record lows (and continue to fall) and petrol prices are also decreasing, the inevitable picture from our view is one of ‘great opportunity’ for those in a position to invest in property.

The rental market remains tight and alternative investments remain volatile....the evidence is that smart money seems to be focusing back on property. Official market statistics in real estate are up to five months behind the market. On the frontline we have seen a remarkable lift in activity since the last interest rate drop, with so much more action in December than the traditional September to November period. We feel for anyone with a secure job, recognize you have had a major win in the area of residential property if you are buying or upgrading at the moment.

Those who are buying additional investment property have lower costs with the softened property prices yet have increasing rents, cheaper cost of money with record low interest rates and are investing in long term security of land bricks and mortar.

The world wide financial crisis does have a silver lining for so many, you just have to get on and grab the opportunity while it lasts....have an exciting 2009 and seize the day.

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