Interest Only Lending

10 May 2018

APRA announced a number of changes to investor and interest only lending in 2017.

The most recent announcement dropped the cap on investor lending.

Importantly though the 30% cap on interest only lending remains.

What Does This Mean

- Lenders are required to limit the proportion of interest only lending to 30% of new mortgages.
- Rates are higher for interest only loans, even if the loan is for an owner occupier property.
- For anyone with an existing interest only loan, renewing the interest only period will be more difficult.

Important Considerations

Interest only lending has been targeted by APRA – but there are legitimate reasons to have your investment loans setup as interest only.

For many people having investment debt as interest only allows higher repayments to me made on your residence, resulting in clearing of the owner occupier (or non deductible) debt much faster.

Interest only lending can also be used to reduce your cashflow needs during more expensive life stages such as having children, studying, starting a business etc.

If You Already Have An Interest Only Loan

If you have an interest only loan, it is important to examine if it is still the best option, and to prepare well in advance of the end of the interest only period.

- **Rate –** You need to evaluate if the interest only repayment still makes a difference to your monthly commitment. The Principal and Interest Rate is lower, which may mean the repayments are similar, given the interest rate differential. If so – you are far better off financially by moving to Principal and Interest.

- **Plan –** The lending environment is tough. Getting your loan approved is more difficult. This means you are not guaranteed to be approved for a new interest only period. It is important therefore you speak to your broker six months prior to the interest only period expiring – to see if you qualify.

- **Prepare –** there are steps you can take to improve your chances of being approved
    - Reduce your unused credit card limits.
    - Don't take out any new personal loans or credit cards close to the time you will require approval.
    - If you are planning on changing workplaces wait until after your loan approval. If you have a probationary period it will make your loan approval harder to get.

- **Increase –** if you concerned about how you might cope with the increased repayments then you could start paying more now so that that change is not as dramatic when the interest only period ends.

What If You Can't Afford Principal And Interest Repayments

- **Budget –** If you have not reviewed your budget recently now is a good time to review your expenditure and decide if there are some changes you can make to improve your cashflow.

- **Loan Term –** you might need to extend your loan term. Whilst this is not ideal, it will help keep your monthly repayment at a manageable level.

- **Consolidate –** if you have a number of debts outside your mortgage you may be able to consolidate them into one loan and reduce your monthly commitment.

- **Sell –** if you review all of the above and you still cannot manage your debt, then it is best to sell on your terms rather than wait for the lender to force you into a quick sale.