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Money
Banks turn loan shy
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First-home buyers and those looking to refinance may find it increasingly difficult to secure a loan as big banks turn to business lending.

Banks have been tightening their lending criteria for some time now - the days of the 100 per cent loan are long gone - but there's talk home loans will become even harder to secure as the big four "ration" mortgage money and turn their attention to business borrowers.

First-home buyers and people eager to refinance are expected to come under more intense scrutiny in particular, at a time when surging house prices and rising interest rates are already hurting.

Credit unions and building societies are happy to fill the lending gap to a certain extent but say they won't be tempted to relax their borrowing standards. Other lenders may be prepared to take on borrowers deemed to be a bigger risk - but only in return for a higher interest rate.

The view is that big banks are suffering a bout of indigestion, having bitten off an even larger chunk of the mortgage market as the global financial crisis hammered their non-bank lending rivals and big institutions benefited from the perception they were "safe".

Banks, both big and small, now account for more than 90 per cent of the mortgage market.

The managing consulting director of Fujitsu Australia and New Zealand, Martin North, says home loans would make up 60 per cent to 65 per cent of a big bank's loan book these days.

"Our view is that this can't, and probably won't, continue," North says. "With business lending - which tends to be more profitable - coming back, it seems quite likely to us that the banks will be looking to grow that side of their book instead.

"If you're a consumer, they'll be looking probably harder than they ever have in recent years in terms of things like income, savings history, loan-to-value (LVR) ratio and even your credit rating." Banks have already pulled back on the LVRs they're prepared to lend at, preferring loans whereby you borrow no more than 80 per cent or 90 per cent of the valuation of a property. Market researcher Canstar Cannex reports the average maximum LVR has fallen to 92 per cent.

Canstar Cannex says HomeSide Lending, a division of National Australia Bank, now directly links the interest rate to the LVR - the bigger the deposit, the lower the rate.

"If you're a first-time buyer who wants 95 per cent, without any savings history, you're going to find it very difficult," North says.

"There will be selective rationing, as it were. Some types of customers will be able to get a loan, no problem. Other types will find it quite difficult or, indeed, even impossible."

As interest rates rise, banks will apply increasingly conservative serviceability ratios, North says, referring to how much of your monthly income will be eaten up by mortgage repayments or **debt** payments overall (including **credit card debt**).

Ideally, your mortgage should require no more than one-third of your gross income, though in recent times, lenders allowed that ratio to go above 40 per cent or even 50 per cent for some borrowers. Apart from first-home buyers, the other group to suffer as banks ease back on mortgage lending will be people seeking to refinance "under duress" - perhaps because of rising interest rates, North says.

They may be caught in a pincer movement of rate rises and credit rationing, he says.

"Perhaps they were able to get a loan at a 95 per cent LVR before; suddenly they find, when they go to refinance, essentially they can't - no one's prepared to give them a loan on that basis."

The chief executive of Abacus - Australian Mutuals (the umbrella group for credit unions and building societies), Louise Petschler, says her members are "happy to step in" but won't change their traditionally conservative approach just to snag more of the market share.

"If there's any kind of rationing, our member institutions want to be active in the market but at the same time they've got a very strong commitment to responsible lending," Petschler says.

"Our industry doesn't want to put any of its members into an overcommitment situation."

Credit unions and building societies recorded double-digit growth in home lending last year.

Petschler says the sector's average standard variable rate is 0.5 of a percentage point lower than the average for the big banks but mutuals also tend to operate on lower LVRs.

"If you're looking to secure a loan, they will 'stress test' you," she says. "They'll look at your capacity to repay at increasing rates and they will insist on a deposit in most circumstances."

Petschler suggests that borrowers who are knocked back by a bank should insist on being given a written explanation of the rejection so they know what they need to do differently next time.

Also, if a mortgage broker doesn't include any credit unions or building societies in the loans he or she recommends - perhaps because mutuals don't tend to pay commissions - Petschler suggests asking a smaller lender to send out a mobile lender.

"If you save 35 basis points [0.35 of a percentage point] on a loan, that can be tens of thousands of dollars, depending on the value of the loan," she says.

In Canstar Cannex's latest Home Loan Star Ratings report, released last week, the big banks made up just 12 per cent of its five-star loans, despite holding 90 per cent of the market. In contrast, credit unions accounted for 27 per cent of top-rated loans.

Smaller banks came in at 9 per cent of its five-star loans, ahead of building societies at 6 per cent.

KEY POINTS

The big banks are expected to slow their home lending.

This means they'll scrutinise applications more closely.

First-time buyers and people refinancing may have to shop around.

Credit unions are an alternative source, but are averse to risk.

A non-bank lender may say yes - but at a higher interest rate.

Tips for loan approval

Save a bigger deposit or build more equity in your existing home.

Reduce your other debts, including **credit card debt**.

Remember to detail all your assets, including savings accounts and investments.

Avoid even small credit blemishes, such as a default on your mobile phone bill.

Your credit file includes all rejections, so don't apply for credit willy-nilly.

Being declined for loan pre-approval also counts. Be properly prepared.

Build a solid employment record (but overtime may not count).

See if family can gift you money to get you over the 20 per cent deposit threshold.

Consider buying with others you trust, such as friends or family.

Do your research — one lender may be more likely to approve than another.
