Nothing has negatively changed with regard to your income, your debts, your liabilities or your job. In fact, if anything, your financial situation may have improved – but as the mortgage crisis deepens, securing a loan is harder than ever. So how did we get here? And, more importantly, is the crisis here to stay in 2019?

AS FAR as the mortgage market goes, it seems like things couldn't get much worse than they were in 2018.

There was the banking royal commission, which absolutely obliterated the banks over their irresponsible lending practices.

There was the credit slowdown led by the Australian Prudential Regulation Authority, which forced lenders to limit the number of investors and interest-only loans on their books.

And there were a number of out-of-cycle interest rate rises, which saw investors paying up to 20% more for their loans than owner-occupiers.

All of the above conspired to make it difficult for even the most vanilla, high-quality borrowers – those with low debt and good serviceability – to secure finance as the banks severely tightened their criteria.

Not only that, but loan applications are "taking weeks longer than before to get processed", says Philippe Brach, founder and CEO of Multifocus Properties & Finance.

"Assessors keep coming back with more questions every time you answer the previous ones, and frankly a lot of them are pedantic and unnecessary. It is almost like they are looking at reasons for not giving you a loan," he says.

So where does that leave borrowers today? Is it going to be just as difficult to get a loan in 2019 – or are the financial tides set to turn? ➤

ECONOMIC STATE OF PLAY

The International Monetary Fund has warned the world that it is at risk of a sharp economic downturn, lowering its growth forecasts from 3.7% in 2018 to 3.5% in 2019

In January, China reported that in 2018 the superpower saw its slowest economic growth in almost three decades

In December 2018, the Australian Prudential Regulation Authority removed its cap on investor lending, which limited banks' new interest-only lending to 30% of residential home loans being issued

Australian business leaders are increasingly nervous about the country's economic prospects, with 25% expecting business conditions to deteriorate this year, according to the Australian Industry Group survey of chief executives

Low wage growth is hampering any growth in household spending. This, together with a slowing housing market and weakening share market, will be negative for the economy in 2019

How did we get here?

IT ALL began way back in 2014, when the property market began heating up to the point where regulators, leaders, policy creators and decision-makers started to get nervous.

The property markets in Sydney and Melbourne were booming; values began increasing in the double digits every year, and borrowing was at an all-time high. This made people nervous, particularly about the risk that borrowers and property buyers could overextend themselves financially.

So in 2014 the Australian Prudential Regulation Authority (APRA) stepped in, introducing a 10% benchmark on investor loan growth as a temporary measure, in an effort to reduce higher-risk lending and improve practices.

In March 2017, APRA followed this up by forcing lenders to limit new interest-only lending to 30% of residential home loans issued.

These measures worked; they had a noticeable impact on investor lending as banks started to lift investor interest rates and require bigger deposits. Investors took a massive hit as their ability to acquire property was diminished. In fact, following these measures, new interest-only loans fell well below the cap of 30% to just 16% of new loans issued (at their peak, 46% of loans were interest-only).

Then the royal commission into banking and financial services came along. It highlighted a number of irresponsible practices by the banks, which made lenders even more cautious when approving loans.

Combined, the above measures worked to limit investors' ability to buy. They also helped to take the heat out of the property market, which slowed property price growth in Sydney and Melbourne. It worked so well that price growth didn't just slow, it came to a complete halt – and then started falling.

As a result, APRA chairman Wayne Byres confirmed that the limits and measures the regulator imposed would be removed, as they had "served their purpose".

"The benchmark on interest-only lending was put in place as a temporary measure in 2017, with the aim of reducing the level of interest-only lending and improving the quality of mortgage portfolios," he said.

"Since the introduction

TIMELINE OF EVENTS

2013 – Sydney's property market begins to pick up steam, recording growth of 5.4% over the year

2014 – The Harbour City officially booms, recording price growth of 14%

2014 – The Australian Prudential Regulation Authority (APRA) introduces a 10% benchmark on investor loan growth for banks as part of a range of measures to reduce higher-risk lending and improve practices

2015 – Sydney breaks through the $1m median house price mark for the first time

2016 – Melbourne also booms, recording capital growth of 10.3% in 2016, on top of 14.5% growth in 2015

2017 – APRA introduces another benchmark that forces lenders to limit new interest-only lending to 30% of all residential home loans issued of the benchmark, the proportion of new interest-only lending has halved, and interest-only lending at high loan-to-valuation ratios has also declined markedly."

Investor demand waned throughout 2018 amid higher interest rates, tightening loan criteria and slowing growth. So, in 2019, where will things go from here?

And if you do want to add to your portfolio this year, are you likely to have a tough time getting finance?

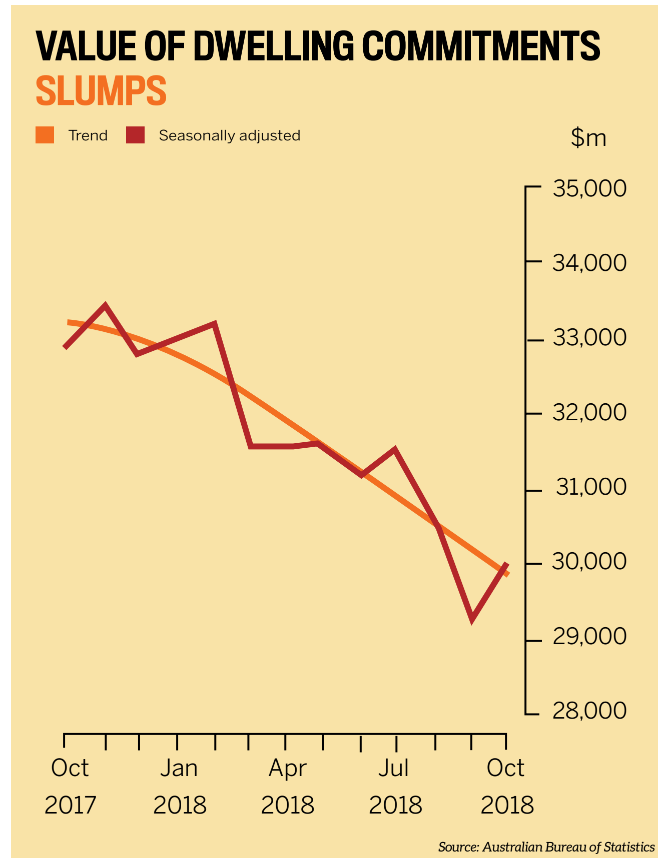
From an economic perspective, the outlook is slightly gloomy. Following all the chaos of the last few years, in January this year the International Monetary Fund (IMF) issued a report that indicated the situation could get worse, as the global economy was weakening at a faster rate than expected.

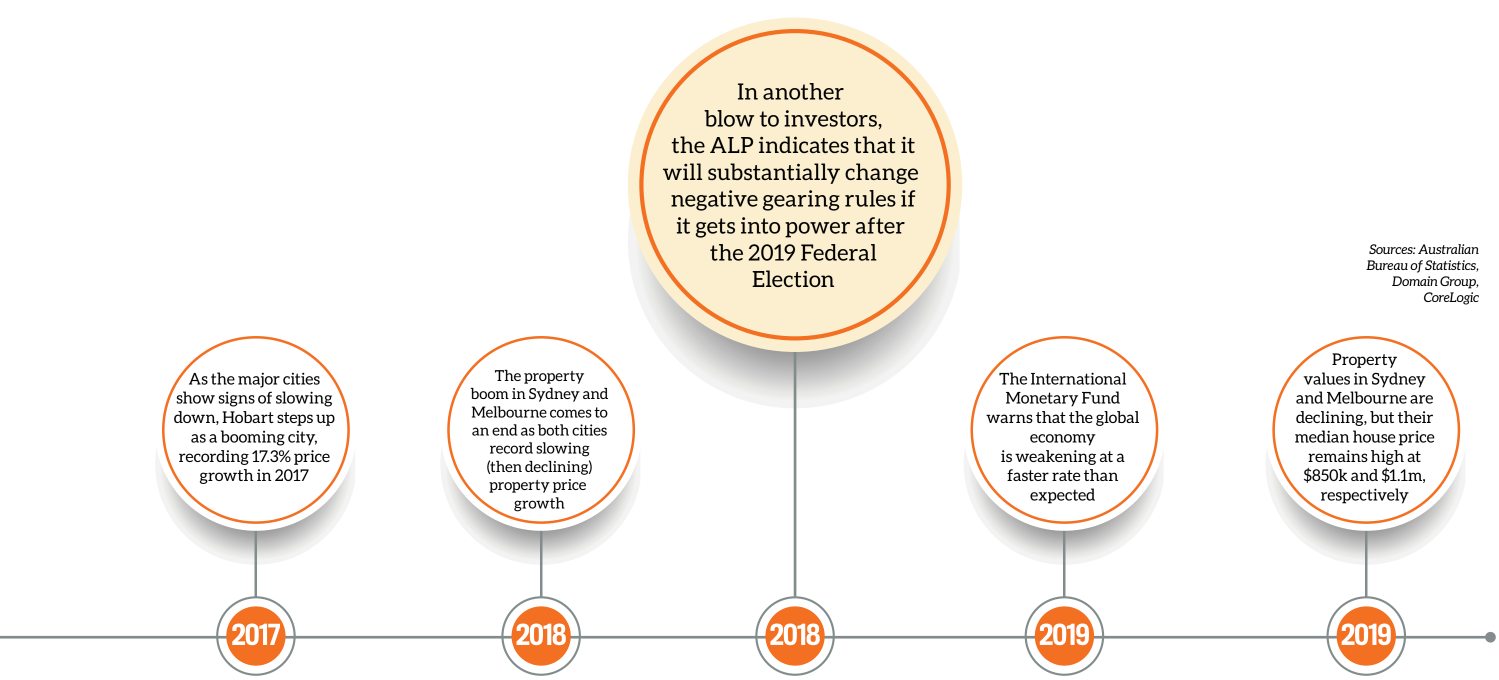
The report warned of a number of triggers – including Brexit, the US-China trade war, and China's economic slowdown – that could lead to even lower property price growth.

"A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given high levels of public and private debt," said Gita Gopinath, IMF chief economist.

"The downward revisions are modest, however we believe the risks to more significant downward corrections are rising."

Add the Australian Labor Party's potential changes to negative gearing into the mix and it's easy to see why investors are cautious about taking any action right now. But for those still keen to buy, let's look at their finance prospects for the year ahead. ➤





Getting loan approval in 2019

IT'S UNDENIABLY harder to get a loan now than it was a few years ago, with a number of factors combining to result in the tighter lending environment we have today.

"Over the past year, as a response to the royal commission and government regulations, we've seen the major lenders tighten their lending criteria due to a decreased risk appetite. This meant that many borrowers who would have easily obtained finance before were suddenly finding their applications rejected by the majors," explains Royden D'Vaz, head of sales and marketing at Bluestone.

"These borrowers formed the new 'near prime' market: borrowers who have clear credit histories but for various reasons do not fit into new credit thresholds. Many of these borrowers are self-employed or residential property investors with complicated cash flow."

Since a convergence of factors has made it tougher for investors to access lending in the current mortgage market, it could be smaller institutions and non-bank lenders that pave the way for landlords to continue building their portfolios.

Amanda James, head of broker distribution at Adelaide Bank, adds that it's not just caps on investor and interest-only lending by the regulators that have hampered investors over the last couple of years, but, more so, the response of the big banks in terms of tightening their loan application criteria.

"There has been a shift towards increased scrutiny by lenders to 'deep dive' into the ability of borrowers to repay their loans, as regulators have expressed concern that lenders should look not only at the ability to service the loan but cultivate an expectation that the debt will ultimately be repaid in full and to more thoroughly stress-test this ability," James explains.

As lifestyles and spending habits have changed considerably over the years, and families in particular now have a growing list of expenses, a number of line items are now being taken into account that perhaps even just 10 years ago weren't considered the norm.

"Expenses such as multiple mobile phones, data usage, Netflix, Spotify, takeaway and home-delivered meals, overseas holidays and rising costs of childcare and private education all add up – and wage rises have been minimal," James says.

"Utility expenses such as electricity and gas have also been putting pressure on disposable household income, so we have an obligation to ensure that these expenses, when all added up, are not going to place undue financial pressure on borrowers now or if there is a downturn in the economy.

"As we have seen, property prices do not magically and automatically go up every year, and there has also been downward pressure on rental returns in capital cities, so all of this needs to be properly taken into account at the time of application."

Due to this increased burden on banks to get it right when assessing applications, many lenders are asking for extra information, which can also affect application processing times. (See 'The cost of loan processing delays', p28.)

That said, even though banks have tightened their loan application criteria, that doesn't mean all hope is lost. D'Vaz suggests that loan applicants with more complex situations may need to look to the non-banks to find financial solutions, as these lenders are more flexible and able to assess applications on a case-by-case basis, instead of rejecting them based on restrictive credit scorecards.

"A bank rejection can be disheartening and extremely stressful, especially if a settlement date is looming. But there are options out there, even in this tightening lending market," D'Vaz says.

"When approaching a non-bank, borrowers should remember that we don't deal with credit scorecards but instead assess each application on its own merits. It's really important that we get a full picture of your financial situation, so you should make sure to disclose all debts and liabilities and provide proof of income and expenditure, like personal or business bank statements."

Even if you usually manage your loan applications personally, now is a good time to consider contacting a broker who specialises in investor lending, he adds.

"They may be able to guide borrowers to products and solutions they may otherwise be unaware of, and help build a complete application so the lender can come to a decision."

Although many borrowers are finding themselves in new territory, for non-bank lenders this is nothing new; they have long been finding finance solutions for investors who don't conform to the big four's criteria.

"We have catered to those who seek an alternative to traditional solutions for more than two decades," says Heidi Armstrong, head of consumer advocacy at Liberty.

"Many investors want to minimise their cash or equity contributions when buying an investment property, and non-bank lenders can still assist investors who are looking to minimise the cash or equity contribution towards the purchase... Lenders like us have increased in relevance in recent years, because we offer helpful solutions right across the lending spectrum, and being able to approve deals that banks can't isn't new to us." ➤

"There has been a shift towards increased scrutiny by lenders to 'deep dive' into the ability of borrowers to repay their loans"

TOP TIPS FROM THE EXPERTS

"Be completely honest about your spending and aspirations. It is a very complex market at the moment with vastly differing appetites for risk and market sectors among lenders, and a good broker will help guide you through the process of finding the right loan"

– Amanda James, head of broker distribution, Adelaide Bank

"Talk to a mortgage broker. Ask them about lenders who take a broader perspective when it comes to assessing customers' circumstances, as they generally look at an applicant's full story when assessing their eligibility for a loan ... and find more ways to get to 'yes'"

– Heidi Armstrong, head of consumer advocacy, Liberty

"I think this current lending environment will last for some time, so investors need to navigate the situation. If you are tight on servicing today, then you may have to make lifestyle choices to improve your servicing"

– Philippe Brach, founder and CEO, Multifocus Properties & Finance

"If you're unsure of monthly outgoings, it can be a good idea to track spending for a few months to get a better picture of where your money is going before embarking on your next property purchase or refinance. Also, be sure to explain any unusual transactions, like large lump-sum income or expenses"

– Royden D'Vaz, head of sales and marketing, Bluestone

THE COST OF LOAN PROCESSING DELAYS

When marketing executive Marcus W bought a two-bedroom apartment on the Gold Coast as an investment last year, he made sure to get all of his financial ducks in a row before making an offer.

"I did the right thing and went to a broker to get the best possible loan. Ironically, the best fit turned out to be my own bank, which was one of the big four. But the broker had done all the work, so I continued working with them to get the finance," he explains.

With pre-approval in place to spend up to $350,000, Marcus negotiated on an apartment for 10 days before settling on a purchase price of $315,000. Borrowing 90% with a 10% cash deposit, he was levied a $5,000 lenders mortgage insurance (LMI) premium to pay, which his broker assured him could be capitalised onto the loan.

Despite getting pre-approval before putting his offer in writing, he said the process of getting loan approval was long and laborious.

"There were so many over-the-top checks and balances. For instance, I provided a rental statement for my existing investment property, but that wasn't enough; they needed to see a copy of the lease as well. And even though I was already an NAB customer of almost 20 years, I was required to physically visit a branch to prove my identity, because I was applying through a broker."

The frustrations continued right through the four-week settlement period, and there was a delay in getting unconditional approval because the bank was simply too backed up.

"The impression my broker gave me was that my loan wasn't a high priority for the bank, because it was such a low amount," Marcus says.

"I had the real estate agent calling me every day, putting pressure on me to get unconditional approval, but there was nothing I could do!"

Eventually approval did come through 10 days late. Settlement was due to take place two weeks later, but it was delayed at the bank's end once again, costing Marcus a pretty penny in the process.

"We settled about a week or 10 days late, and the vendor ended up charging me penalty interest of almost $300. Then, two days before settlement, my broker sent me an email saying, 'So sorry! NAB won't capitalise the LMI. You'll have to find the money to pay it'. I was so gutted. The whole experience was really demotivating."

Fortunately, the existing tenant in the property stayed on and even agreed to a rental increase in December 2018, so the investment has been smooth sailing ever since. However, getting finance in the first place was a painful process – and one that Marcus doesn't want to repeat any time soon.

"I'm going to hold off on buying another investment property until I've saved a 20% deposit, simply because I don't want to jump through all of those hoops again. It's really hard to be an investor these days, but hopefully in 20 years when I'm living off the rental income, I'll feel like it was all worthwhile!" ➤