Borrowers may find it difficult refinancing loans as credit tightens: RBA

By senior business correspondent Peter Ryan

Updated May 04, 2018 15:38:02

Tighter lending standards are likely to make it more difficult for property investors to extend the life of their interest-only loans and leave some borrowers exposed to surging repayments, the Reserve Bank has warned.

The RBA says the recent stance by the Australian Securities & Investments Commission (ASIC) that owner-occupiers should not have interest-only loans extended beyond five years could pressure household budgets when loans switch to higher principal and interest repayments.

In its quarterly statement on monetary policy, the RBA said a typical borrower with a five-year, interest-only period on a 30-year loan could see repayments surge by as much as 40 per cent if they refinanced to pay principal and interest.

The rise in repayments after switching from a typical interest-only loan of about $400,000 could be as much as $7,000 per year, the RBA warned.

"For such households, this is a non-trivial sum," the statement said.

"The affect on their consumption though will depend on the extent to which they have planned and provisioned for this predictable step-up in payments," the statement said.

While the RBA believes the number of borrowers unable to meet higher principal and interest repayments is small, it's liaison with the market shows a few will need assistance in making the transition.

However, the RBA warned highly leveraged borrowers were most exposed and might be forced to sell their properties if they were unable to refinance.

The RBA said there would be greater exposure, "in the event of an adverse shock that led to a deterioration in overall economic conditions".

Last year, the Australian Prudential Regulation Authority imposed a "speed limit" on interest-only lending of 30 per cent of total residential lending in a bid to cool a hot real estate market in Sydney, Melbourne and Brisbane.

PHOTO: Reserve Bank says there is nothing on the horizon to change its generally upbeat view of the Australian economy. (AAP)

RELATED STORY: RBA should be clearer about when and how rates will change

RELATED STORY: RBA keeps rates on hold for 19th consecutive meeting

RELATED STORY: Australian dollar surges on Reserve Bank's 'neutral' cash rate of 3.5pc

MAP: Australia

Interest-only loan time bomb

Up to a third of borrowers with interest-only home loans may not realise that is what they have been sold.

New home buyers' credit crunch

Home buyers could see their borrowing capacity cut by as much as 40pc due to reforms likely to be driven by the Hayne Royal Commission

Forecasts unchanged

The quarterly statement painted an otherwise rosy outlook for the Australian economy in which key

The quarterly statement painted an otherwise-rosy outlook for the Australian economy in which key forecasts were largely unchanged.

Gross domestic product was forecast to grow to 3.25 per cent by December 2019 with unemployment falling to 5.25 per cent and headline inflation rising to 2.25 per cent.

Wages growth is expected to pick up only gradually as the labour market tightens.

"The bank's liaison suggested that a higher share of firms are now expecting a pick-up in wages growth over the year ahead although most still expect little change," the statement said.

External Link: Oliver tweet

The RBA said while the current trade tensions between the United States and China were "manageable", it believed a further escalation in protectionist measures could harm global growth "significantly".

"Global trade would therefore decline over time. An adverse reaction in financial markets could also be expected," the RBA said.

The RBA repeated earlier messages that if the domestic economic outlook remained on track, the next movement in the cash rate was likely to be up.

"Notwithstanding this, the board does not see a strong case for a near-term adjustment in the cash rate."

The RBA said while the Australian dollar had depreciated recently, any significant rise might dampen economic growth and inflation.

Follow Peter Ryan on Twitter @peter_f_ryan

Topics: money-and-monetary-policy, housing-industry, australia

First posted May 04, 2018 15:13:41

Contact Peter Ryan