

Restrictions lifted! Great news for property owners.



Q: Do you have an interest only loan and know when it expires?

Q: Should you opt for interest only in the future?

Q: With a possible change in government ahead, should you buy now before potential changes to negative gearing and capital gains tax?

These are all very important questions to answer whether you are a current mortgage holder or looking to break into the property market in the near future.

Did you know... that the interest only lending restriction has been lifted?

The Australian Prudential Regulation Authority (APRA) is an independent authority that supervises institutions across banking, insurance and superannuation.

During early 2017, APRA forced lenders to limit new interest only lending to 30% of all the home loans they issued as a measure to:

- cap investor lending
- reduce high risk lending
- improve bank lending standards, and
- reinforce sound lending practices

At their peak in 2017, 46% of home loans were interest only¹.

Since the lenders' restriction was applied, leading commentator on national housing market and trends and senior research analyst for Core Logic, Cameron Kusher, reported in December 2018 that interest only loans have fallen to about 16.5% of new lending¹.

>> NEWS FLASH! These restrictions were lifted from 1 January 2019². <<

So is now the time to go back to interest only?

'Remember – interest only loans were designed with very specific types of borrowers in mind, and that may not be you.'

If you are considering an interest only home loan, it's vitally important to weigh up the pros and cons of this type of loan³.

Benefits

- The repayments are generally less due to not paying anything towards the principal amount and subsequently increases cashflow for other purposes – potentially the first five years
- Can be used for a bridging or construction loan
- May free up cashflow for other investments
- First home buyers trying to make their first few years of loan repayments more affordable
- Can be useful for buyers who only plan to hold on to the property for a few years before selling it

Pitfalls

- They tend to have a maximum loan period of five years, after which the loan reverts to a principal and interest loan
- This typically means you will have higher repayments when the interest only period ends
- It will be more expensive over the life of the loan because the principal is not being reduced during this period.
- The principal amount of the loan WILL NOT reduce during the interest only period
- You still have to repay the loan at some point
- Your application will require justification to why you are seeking an interest only loan and why this is not unsuitable for you.
- The property might depreciate during the interest only period leaving you with less equity and refinancing difficult
- Obviously, interest only loans are not designed for everyone

According to ASIC's Money Smart, while it's generally investors who have IO loans (2 in 3), 25% are actually taken out by owner occupiers³.

For the budding property investors out there contemplating purchasing a negatively geared property (a popular property investment strategy for many Aussies), PLEASE take note.

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Great news for property owners.

If a change of federal government to Labor occurs in May this year, we may be likely to see a significant change to the negative gearing rules.

The ALP proposal is to maintain current negative gearing benefits **ONLY IF** you purchase a **brand new** property for the purpose of investment, **BUT NOT WITH established residential investment property**, as you can do now.

Labor has also mooted changes to capital gains tax. The **tax discount** will be reduced from 50% to 25% for assets held longer than 12 months.

Contact us for the case studies from one of our recent updates and more details on these changes to negative gearing and capital gains tax.

There are many options if your interest only loan is due to expire, or if you are considering a loan for a property in the future.

If you currently have an interest only loan that is about to expire, we can help you decide what option will suit you best.

Will it be:

- helping you negotiate an interest only extension from your lender? (If it's possible and not unsuitable for your circumstances, we will make it happen for you!)
- recommending you to start repaying the principal with your current lender?
- to refinance you to another interest only loan with a different lender now the restrictions have been reduced?
- OR simply helping you to refinance to a P&I loan with a different lender?

As your finance specialist, we can explore possibilities that best suit your financial situation and goals for NOW and considerations for the next few years.

Make sure that, before you make any decisions or changes to your finances, you contact us.

Making the right decision for your finance solution requires experience in the industry and an astute knowledge across a wide range of lenders.

We are here to help you make the right decision.

Contact our office today
to read about

**'Is it a good time to
refinance? Make sure
you seek expert help...'**



¹ www.domain.com.au/news/interest-only-lending-benchmark-scrapped-793077

² ABC News, APRA to remove banks' interest-only lending restrictions, 19 December 2018

³ ASIC Money Smart, Australia's Interest-Only Mortgages



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