FINANCIAL REVIEW

# How to find the cheapest investor loan rates

But be sure to check the comparison rate to make sure you avoid the trap of high fees.

**Duncan Hughes**
*Reporter*
Feb 12, 2021

Investors are being offered cheaper loans than owner-occupiers as regulatory controls ease and demand for residential property continues to grow.

But to find the lowest rates, borrowers will need to compare both the advertised headline rate and annual percentage (or comparison) rate, which takes into account loan fees and charges.

They reveal that some lenders' advertised rates for homebuyers and investors are less than half the real cost of borrowing when other expenses, such as administrative fees for setting up the loan, are included.

## Top five lowest mortgage rates

VARIABLE INVESTMENT

| Institution | Loan | Rate (%) | Comparison rate (%) |
|---|---|---|---|
| Northern Inland CU | Dream Value Investor | 1.99 | 2.38 |
| TicToc Home Loans | Investment | 2.33 | 2.34 |
| homeloans.com.au | Low Rate | 2.39 | 2.41 |
| Reduce Home Loans | Investor Rate Slasher | 2.39 | 2.44 |
| AMO Group | Investment Basic | 2.43 | 2.54 |

*As at Feb 9,2021. Based on variable home loans for $1,000,000, 80% LVR and principal & interest repayments; ex introductory and first home buyer only loans. Comparison rates based on $150,000 over 25 years. SOURCE: CANSTAR*

For example, RACQ Bank is offering a homebuyer with a 20 per cent deposit seeking a $1 million principal and interest fixed-rate. three-year loan a headline rate of 1.89 per cent. The real rate, after adding expenses, is 3.84 per cent, or more than double.

An investor seeking the same terms from RACQ Bank is being offered a headline rate of 2.09 per cent and a compar ison rate of 4.21 per cent.

Analysis of top fixed rates, exclusively provided to *AFR Weekend* by Canstar, which monitors rates and fees, shows that the real cost of three-year fixed rates for investors is less than many best offers for owner occupiers.

Investor lending remains at record lows, requiring a near 50 per cent increase in activity to return to average volumes of recent years, but is expected to rise as competition from first-home-buyer activity slows and generous government subsidies end.

Comparison of investor and owner-occupier loans shows the average gap has narrowed from a peak of 48 basis points in February 2018 to about 36 basis points. The comparison is based on a 30-year, principal and interest variable loan for $1 million with a 20 per cent deposit.

**We may see investment rates falling further.**
— Steve Mickenbecker, Canstar group executive

“Any case for applying the brakes to investment lending falls well short of the 2014 scenario of runaway investment demand and looks ripe for unwinding,” says Steve Mickenbecker, a group executive for Canstar. “We may see investment rates falling further.”

The Australian Prudential Regulation Authority slammed the brakes on investment lending in December 2014 in a bid to slow demand and prevent the market from overheating.

Lenders have continued to impose higher rates and tougher lending conditions despite caps being removed in 2018, possibly in response to allegations of reckless lending by the royal commission into banking practices.

The value of new loan commitments for housing in December hit a record high of $26 billion, an increase of nearly 9 per cent from the previous month and more than 31 per cent higher than for the same month last year, according to government figures.

Property prices in some capitals have hit new highs even though the national house price index today is where it was four years ago, according to the Reserve Bank of Australia.

Investors, who have been comparatively quiet in recent months, are expected to make a comeback as the government's HomeBuilder grant finishes at the end of next month, according to Capital Economics, an independent consultancy.

Foster Ramsay Finance principal Chris Foster-Ramsay says: "They are emerging as competitors for detached property buyers in competition with first-home buyers and downsizers."

## Fall in investor lending

Andrew Wilson, chief economist for Archistar, a property technology company, says investor lending is less than 20 per cent of the total, which compares to an average of 33 per cent and the 2015 record of more than 43 per cent.

"Lending to investors remains constrained," Wilson says. "As prices rise, the risk of loans will fall. Banks are more amenable but it is a long journey back to traditional levels of one-third. The problem is, what are they going to buy?"

Buyers continue to steer clear of inner-city high-rise apartments, where Sydney and Melbourne vacancy rates have increased by nearly 8 and 9 per cent respectively and apartment rents are down by up to 30 per cent during the past 12 months, according to SQM Research, which monitors markets.

Buyers' agent Patrick Bright says COVID-19 controls on landlords, such as reducing rents, has made many investors nervous about returning to the inner-city apartment market, which has led to increased demand for houses in the suburbs.

Source: https://www.afr.com/wealth/personal-finance/cost-of-investor-loans-falls-as-demand-picks-up-from-record-lows-20210210-p57178