Banks win, investors lose as APRA caps bite

CBA's Ian Narev: The banking regulator's attempts to curb the housing market have delivered a fillip to Commonwealth Bank. **Jessica Hromas**

by **Jonathan Shapiro**

Bigger bank profits on investor loans are an unforseen but direct consequence of loan-growth caps introduced by the banking regulator to stop property prices from spiralling higher.

Analysts say that moves by Commonwealth Bank of Australia to reprice investor loans and remain under the caps will deliver a $200 million fillip, or 2 per cent lift, to a full-year net profit that is forecast to reach almost $10 billion in 2017.

The bank said last week that the move to raise interest rates on investor-only loans was designed to ensure it stays within the Australian Prudential Regulatory Authority's caps on investor loan growth of 10 per cent per annum announced in late 2014.

The recent hike is expected to deliver the bank an extra $140 million in interest payments on top of the additional $64 million the bank is expected to collect from a 7 basis-point rise in December.

Hike makes CBA equal most expensive interest-only rate

Bank		Rate (%)
CBA	Standard variable	5.68
Westpac	Rocket Investment	5.68
NAB	Tailored Home Loan	5.65
ANZ	Standard variable	5.60

SOURCE: FINDER.COM.AU

The change in pricing will move CBA's interest-only investor loans from the cheapest of the big four banks to the equal most expensive alongside rival Westpac.

Bell Potter banking analyst TS Lim said that, although the hike might improve margins in the short term, the move would almost certainty result in a loss of business.

"You can't hope to hang on to 100 per cent of the business, so there will be some leakage," Mr Lim said.

The move by the prudential regulator to cap growth in investor lending has created a headache for the nation's lenders as they attempt to manage the pace of investor lending to remain within the imposed limit.

Earlier this month APRA chair Wayne Byres talked tough to the banks, warning that it would impose tough penalties if they over-lent to speculators.

But there is growing evidence that the decision could prove advantageous to the nation's largest lenders as they attempt to slow demand by hiking interest rates on investor loans.

Shaw & Partners banking analyst David Spotswood said rough numbers suggested that CBA's repricing of all investor loans could add about three

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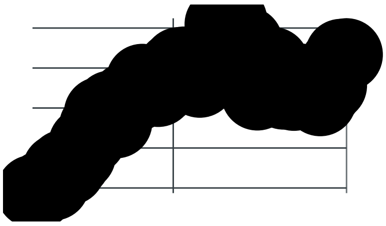

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basis points to the bank's net interest margin and boost earnings by $180 million.

The potential earnings uplift would also boost the valuation of the big banks that, throughout most of last year, were expected to deliver no profit growth, but are now priced for a modest increase in earnings.

Mr Spotswood said the bank's ability to reprice its loans, even at the cost of lower volume growth, was "good" for reasons other than the growth in margins.

"A little less volume growth is less capital constraining, and investor lending is riskier. So [the APRA measure] is lowering the risk profile of the banks and reducing capital demand."

The APRA curbs had initially led to increased competition among the banks in the owner-occupied segment of the market, but Spotswood said the evidence was that the bank's were pulling back from the heavy discounting on home loans that were on offer in 2016.

Meanwhile, competition in the deposit market, which had increased funding costs, also appears to have eased.

"The Australian banking market is highly competitive but it's rational competition," Mr Spotswood said.

The banks may be benefiting from a perceived earnings boost, but the prudential regulator's main concern is preventing another build-up in systemic risk from excessive property speculation.

Portfolio managers at Melbourne-based credit fund Realm Investments, which tracks systemic risk build-ups, told clients that Australian household risk has started to rise again.

"This is being driven by a renewed momentum in house prices, strong growth in unsecured debt and weaker income growth," Realm said.

The last time system risk reached these levels APRA measures proved effective in reducing the interest-only and investor-lending growth. But Realm said the level of absolute risk was back at a level that may require "some form of action".

"To that end it was no surprise to see Wayne Byres (APRA's head) back on the front foot recently speaking of the need to push ahead with necessary reforms," it said.

"APRA's intervention has, of course, become so much more important of recent times given that the RBA is effectively sidelined given the impact higher rates would have on the Aussie dollar and the economy more broadly."

CBA

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