Snare a home loan while you can, as banks set to get tough

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[PR]OSPECTIVE borrowers [ha]ve been urged to get a [ho]me loan while they can.

Some may soon start to [fin]d it a little tougher to [bor]row, with the big banks [ex]pected to turn the screws [qu]ietly on who qualifies for a [ho]me loan.

Steep price rises in several household items, combined with tougher rules on bank lending, are likely to result in banks taking a more cautious view of how much they lend.

This is in contrast to the banks' recent stance of trying to drum up business by relaxing lending standards, mostly by increasing the maximum loan amount against the value of a house, or the loan-to-valuation ratio (LVR).

National Australia Bank is the most aggressive, lending up to 95 per cent of the value of a borrower's property.

ANZ, by contrast, is the most conservative, with a maximum LVR of 90 per cent.

Banks already apply an interest rate buffer on new loans to ensure borrowers have enough headroom to repay in the face of further interest rate rises.

Banks also calculate a borrower's average living cost to help them determine what they can safely lend.

But leading bank investment analyst Matthew Davison, of Merrill Lynch, said household budgets were increasingly coming under pressure, with price rises in many categories, including food, utilities, insurance and petrol.

Banks already put a steep discount on living costs when assessing disposable income for new borrowers. But this situation is likely to

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change as internal bank borrower models are updated and new responsible lending laws start to evolve.

"We believe the strain on the household budget is too big to ignore, and banks don't accurately measure household costs," Mr Davison said.

"These pressures could possibly prompt the banks to update household budget models, thus tightening mortgage lending standards."

Any revision of lending models is likely to result in a smaller average mortgage, further contributing to the slowing pace of lending.

Most economists are already tipping housing lending growth to slow to about 7 per cent this year from more than 8 per cent a year ago.

Banks have reported a rise in the number of loans turning sour, although this is largely due to losses linked to severe flooding and cyclone Yasi in Queensland.

For their part, bankers say the best leading indicator of defaults on housing loans remains the unemployment rate, with the number of jobless still near record lows.