

Banks' interest rort for COVID-19 affected property owners

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Banks have been quick to show how they are helping property owners during the COVID-19 crisis, by offering loan repayment deferrals (also known as repayment 'holidays').

The Banks appear to be helping property owners who are taking these 'holidays', but this is not the case. A six-month loan deferral will actually cost property owners and leave them worse off.

The deferral of repayments doesn't provide genuine assistance, quite the contrary. The Bank is charging interest during the deferral period, growing the amount owed. Consequently, if the Mortgagor is to extinguish the loan on the date originally agreed, the repayments must increase when the deferral period ends. The other option is to apply to extend the term of the loan. Either way the Mortgagor pays more.

"Many property owners are suffering financial hardship due to the COVID-19 pandemic – importantly, this is in no way their fault," says REINSW CEO Tim McKibbin. "Additionally, the Banks predict that the value of these owners' properties is going to sharply decrease as a result of the economic crisis. All of this adds up to a perfect storm."


"Banks constantly monitor the risk profile of their loans. If the Mortgagor presents a greater risk - for example by loss of employment and/or a decrease in the value of the property the loan is secured against – then this increases the Banks' overall risk," says McKibbin.

"The Bank's standard response in these circumstances is to increase the rate of interest payable by the Mortgagor and therefore the amount of each loan repayment. Obviously, this only adds to the financial stress the Mortgagor is under. Clearly, many people will find themselves in this precise position post the Bank's repayment holiday.

"There is in place currently a moratorium on evictions, what we need now is the same thing for property owners' loans.

"We are asking the Federal Government to legislate to stop banks putting up interest rates for COVID-19 affected Mortgagors for two years after the loan deferral period.

"Let's be very clear here, unlike Landlords, this will not cost the Banks a single penny. It will, however, help Mortgagors dig themselves out of their COVID-19 impacted financial difficulties."

REINSW CEO Tim McKibbin is available for comment. 

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About REINSW

The Real Estate Institute of New South Wales (REINSW) is the peak industry body for real estate agents and property professionals in NSW. It represents more than 2000 agencies across residential sales, property management, commercial, strata management, buyers' agency, agency services and auctioneering.

Established in 1910, REINSW works to improve the standards, professionalism and expertise of its members to continually evolve and innovate the industry. It lobbies the government and industry on behalf of members, develops new products and services to benefit agencies and professionals, and offers training and ongoing professional development. For more information, visit reinsw.com.au.