

THE COST OF LIVING RESET

Why Borrower Risk Is
No Longer Where You Think It Is

**GML Lender
Insights Report**



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A shift is underway



INTRODUCTION

A Shift in Lending Risk Is Already Underway

April–May 2026 marks a clear transition point in the Australian lending market, with borrower capacity shifting in response to layered economic pressures now flowing through the system.

This is not a traditional rate cycle. What is unfolding is a broader reset, where interest rate repricing, persistent inflation, and rising household costs are converging at the same time.

The result is a more dynamic lending environment, where the inputs informing lending decisions are evolving faster than the processes used to assess them.

Borrower capacity is no longer stable between application and settlement.

For lenders, this introduces a critical shift. Lending performance can no longer be measured solely at approval. Increasingly, it is being defined by what happens after — through documentation, execution, and ultimately, settlement.



Borrower capacity is no longer a fixed point.

It is shifting in real time between application and settlement.

Emerging baseline
for variable lending rates



Rates Have Reset — But Borrower Impact Is Still Catching Up

Across April–May 2026, variable lending rates have moved decisively into the sixes, with approximately 6.01% now forming a new operating baseline.

While the pace of this change has been rapid, the full impact has not yet fully flowed through to borrowers. As consistently highlighted by the Reserve Bank of Australia, there is always a lag between rate increases and when repayment pressure is fully realised.

This lag is where risk is now building.

Borrowers who appeared comfortable at application in early April are only now beginning to absorb higher repayments, alongside rising everyday costs. As this pressure accumulates, servicing buffers that once appeared sufficient are beginning to narrow.

In practical terms, this means the borrower profile is no longer static.

By the time a deal reaches documentation or settlement in late May, the borrower's financial position may have shifted meaningfully.

“ Rate impact lags reality —
but borrower pressure does not.

Borrower Capacity Is Being Squeezed from Multiple Directions

The current lending environment cannot be understood through interest rates alone.

Across April–May 2026, household affordability is being compressed from multiple directions simultaneously. Fuel prices remain elevated above \$2.55 per litre in numerous locations. Inflation continues to track above 5%, according to the Australian Bureau of Statistics. Health insurance has increased by 4.41%, marking the largest rise in several years.

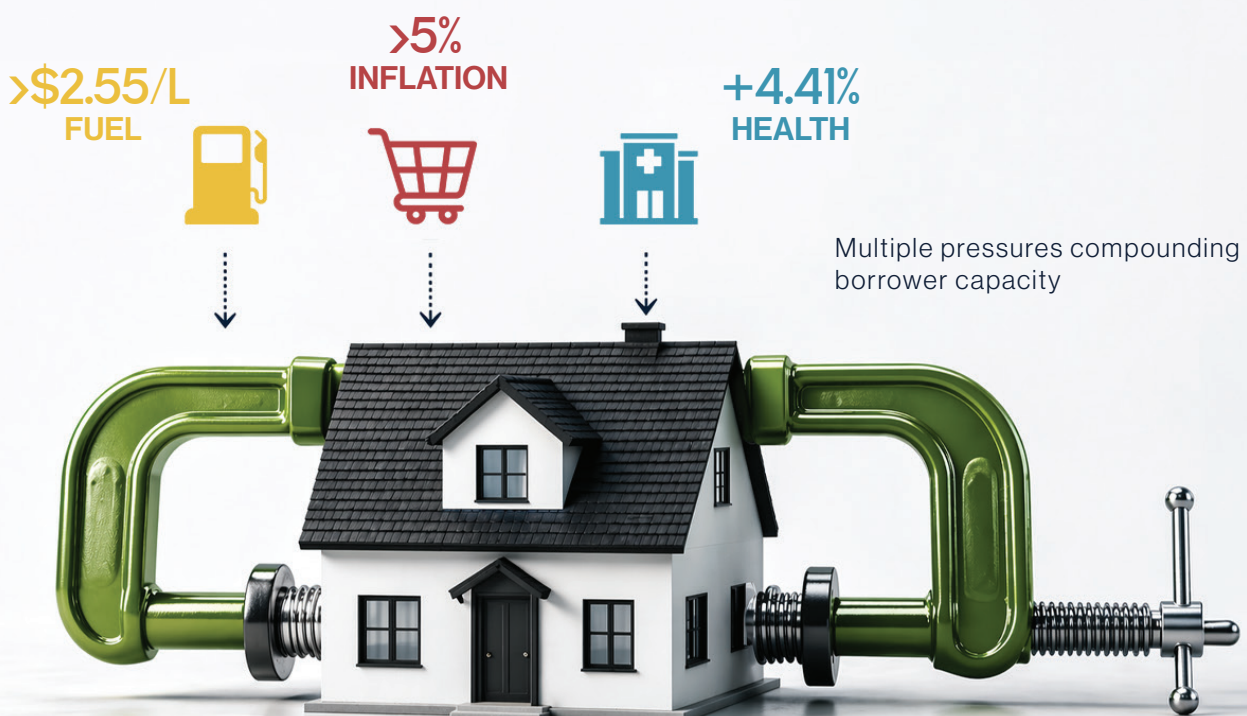
Individually, these pressures are manageable. Combined, they create a sustained tightening of borrower capacity.

This is not a shock event. It is a continuous squeeze.

This distinction matters.

Previously, lending stress often emerged from a single trigger — a rate rise, a job change, or a policy shift. Today, it is the accumulation of smaller pressures that is reshaping borrower behaviour.

Within lending pipelines, this is being reflected in more cautious borrower decision-making. Deals that once progressed cleanly from approval to settlement are now encountering friction. Borrowers are reassessing commitments, adjusting structures, or pausing altogether as affordability tightens in real time.



LENDING RISK AUSTRALIA 2026

WHAT HAS CHANGED FOR LENDERS AND BROKERS

- Borrower conditions are **changing mid-process**
- Economic pressure is **impacting decisions after assessment**
- Deal assumptions are **ageing before documentation**
- Refinancing activity is **reshaping borrower intent in real time**

A loan is no longer a linear process. It is a moving system of reassessment points.

WHERE THE RISK LOOP OCCURS

Risk does not move forward in a straight line. It loops back and re-enters earlier assumptions.



APPLICATION

Serviceability appears stable. Capacity reflects past data.



POST-APPROVAL

Cost pressures reshape cash flow. Confidence begins to shift.



DOCUMENTATION

Data integrity is critical. Small gaps create friction.



PRE-SETTLEMENT

Commitment weakens. Refinancing options emerge.

OPERATIONAL IMPACT

Deals are dynamic. Ongoing stabilisation and continuous data revalidation are now essential.



LENDERS

- Credit risk shifts to **timing + revalidation risk**
- Static serviceability models **lose reliability**
- Deal integrity depends on **continuous data alignment**



BROKERS

- Borrower sentiment **drives deal stability**
- Post-approval engagement is **now critical**
- Delays increase **fall-over + refinancing risk**

MANAGE THE RISK LOOP

Continuously revalidate borrower position, align data to current conditions, and stay close to the borrower. **Monitor behavioural shifts** and **act early** on emerging risk signals.



From a Fixed Borrower Position to a Moving Target

One of the most significant shifts in April–May 2026 is the erosion of the “static snapshot” approach to servicing.

Historically, once a borrower satisfied servicing criteria at application, that position was largely assumed to hold through to settlement.

That assumption is no longer reliable.

Borrower capacity is now dynamic, influenced by changing expenses, shifting economic conditions, and heightened borrower sensitivity to repayment obligations.

The borrower assessed at application is not necessarily the borrower who settles the loan.

This shift is subtle, but its impact is significant.

For example, a borrower approved with comfortable buffers may begin to reassess their position as new costs emerge — higher fuel, insurance increases, or general inflationary pressure. While none of these changes individually disqualify the borrower, together they can influence behaviour.

In practice, this is where lenders are seeing:

- delayed commitment decisions
- requests to restructure loans
- and in some cases, withdrawal from the transaction entirely

This introduces a different dimension of risk.

Not credit failure — but **conversion risk**, where approved deals fail to proceed.

The Shift Into the “Messy Middle” of Your Lending Pipeline

In previous cycles, lending risk was primarily concentrated at approval. Across April–May 2026, that position has shifted decisively into execution.

The period between approval and settlement, that **GML refers to as the “messy middle”**, has become the most critical phase of the lending lifecycle.

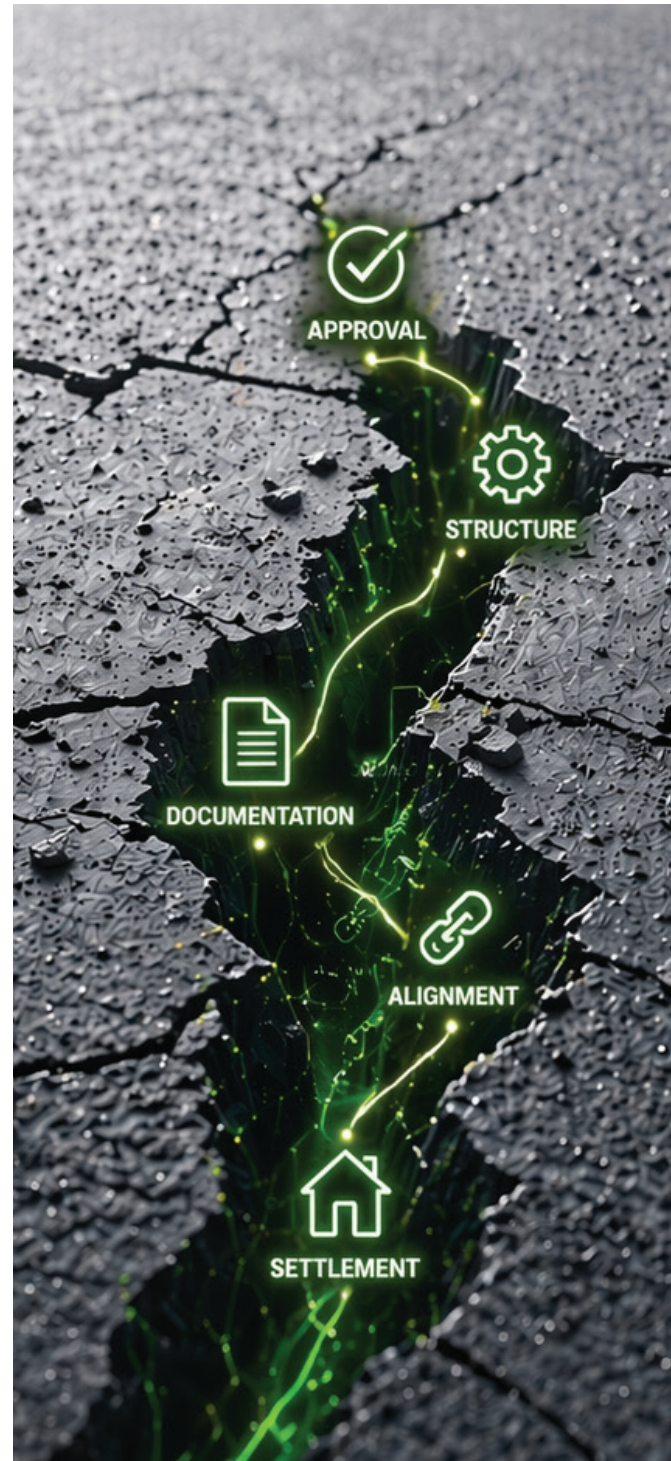
This is where initial assumptions are tested against detailed information. Borrower structures are fully unpacked. Documentation requirements bring clarity, and in doing so, often expose gaps.

In a simpler market, these adjustments were manageable. Today, they are occurring alongside shifting borrower capacity, which compounds their impact.

Consider a commercial transaction involving multiple entities and layered guarantees. At approval, the structure may appear clear. However, once documentation begins, inconsistencies in entity relationships or security arrangements can surface.

This can trigger amendments, delay timelines, and increase exposure to further borrower change.

Deals are no longer breaking at approval. They are breaking in execution.



How This Is Playing Out in Active Lending Pipelines

The shift in borrower capacity and execution risk is not theoretical. It is already playing out across both retail and commercial transactions.

The following scenarios reflect common patterns emerging across 2026 lending activity.



RETAIL SCENARIO

When a "Strong Approval" Doesn't Convert



AT APPROVAL

A borrower is approved in early April with what appears to be a comfortable servicing position. At the time of assessment, their income, expenses, and buffers align well within policy.



OVER THE FOLLOWING FOUR TO SIX WEEKS, CONDITIONS BEGIN TO SHIFT.

Fuel costs increase. Insurance premiums are adjusted. General living expenses continue to rise. While each change appears manageable in isolation, together they begin to erode the borrower's discretionary capacity.



BY THE TIME LOAN DOCUMENTS ARE ISSUED IN MAY, THE BORROWER REASSESES THEIR POSITION.

They hesitate. They question affordability. They explore alternatives. In some cases, they proceed with adjustments. In others, the deal does not move forward.



INSIGHT:

The original approval remains technically sound, but the borrower's confidence in their ability to sustain repayments has changed.

This is where conversion risk emerges — not from credit failure, but from shifting borrower sentiment under sustained cost pressure.





COMMERCIAL SCENARIO

When Structure Delays Become Settlement Risk



AT APPROVAL

A commercial transaction involving multiple entities progresses to approval based on a high-level understanding of the borrower structure. At this stage, the deal appears straightforward.



HOWEVER, ONCE DOCUMENTATION BEGINS, FURTHER DETAIL IS REQUIRED.

Additional entities are identified. Trustee relationships require clarification. Guarantee positions need to be confirmed. Security arrangements require refinement. Each of these elements is manageable in isolation. Together, they introduce delay.



AS DOCUMENTATION PROGRESSES, TIMELINES EXTEND.

Internal reviews increase. Amendments are required. During this extended period, borrower conditions continue to shift. Funding assumptions are revisited. External pressures influence decision-making. Momentum slows.



INSIGHT:

The risk is not in the structure itself, but in when that structure is fully understood and confirmed.

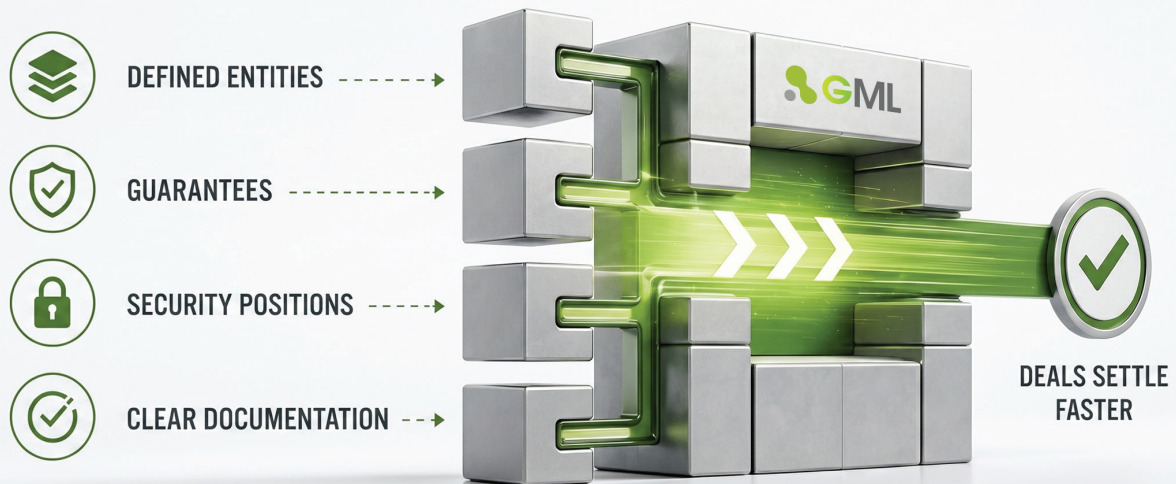
In May 2026, delays caused by late-stage structural clarity are increasingly exposing transactions to changing borrower conditions before settlement can occur.

Why Approved Deals Are No Longer Guaranteed to Settle

Across both scenarios, the pattern is consistent. Deals are not failing because they were incorrectly approved. They are failing because conditions are changing before they can be completed. Execution discipline, early clarity, and structural alignment are now critical to maintaining settlement certainty.



Why Well-Structured Deals Are Settling Faster



In a market defined by change, structure has taken on a new role.

It is no longer simply about documenting a transaction. It is about ensuring that the transaction can withstand movement in borrower capacity and market conditions.

Legal lending, in this context, becomes a discipline that provides alignment, clarity, and resilience.

Transactions that are structured early and clearly — with defined entities, guarantees, and security positions — are consistently demonstrating stronger outcomes.

Well-structured lending does not just support deals. It protects them.

Where this is not done early, the consequences tend to surface later:

- additional rounds of amendments
- internal rework
- delays that expose the deal to further borrower change

In April–May 2026, the difference between deals that settle and those that do not is increasingly tied to how well they are structured at the outset.

Execution Discipline Is Driving Settlement Outcomes

Leading lenders are not immune to these pressures. However, they are adapting how they manage them.

The shift is subtle but important.

Rather than relying on a linear process where each stage follows the last, there is a stronger emphasis on early alignment and forward planning.

Servicing is being assessed not just for current conditions, but for how it may hold over the coming months. Structural elements such as borrower entities and guarantees are being confirmed earlier, rather than left to documentation.

This reduces reliance on assumptions and limits the need for rework later in the process.

The outcome is not simply faster deals, but more reliable ones.

Early clarity reduces downstream friction and protects settlement timelines.

“ Early clarity reduces downstream friction and protects settlement timelines. ”



2026: A Lending Environment That Requires a Different Approach

Calm waters don't test decisions. Movement does.

In a shifting environment, decisions must hold under changing conditions, not fixed ones.

RATES SHIFTING
Interest rate volatility continues to impact lending strategy.



COST PRESSURE
Inflation and operating costs remain elevated and unpredictable.



BORROWER CAPACITY
Borrower performance varies across sectors and geographies.



COMPLIANCE LAYERS
Regulatory complexity and due diligence demands are rising.

April–May 2026 does not represent a peak in market pressure. It represents a transition.

Broader economic commentary from organisations such as the **International Monetary Fund and Organisation for Economic Co-operation and Development** continues to point toward ongoing uncertainty, with inflation, interest rates, and global conditions remaining fluid.

For lenders, this reinforces a key shift in mindset.

Previously, lending decisions were made with an assumption of relative stability. Today, they must be made with an expectation of continued movement.

Decisions must hold under changing conditions, not fixed ones.

This requires stronger alignment between credit, structure, and execution — ensuring that deals are not just approved, but capable of progressing through to settlement without disruption.

“Decisions must hold under changing conditions, not stable ones.”

THE SHIFT IN LENDING REALITY

From Stable Conditions to Execution Risk







Comparing **2023** to **April-May 2026**
and why settlement certainty has changed

2023 LENDING ENVIRONMENT

-  Borrower Capacity
-  Low and Steady
-  Moderate and Manageable
-  Confident and Forward-Moving
-  Linear and Predictable
-  Risk Focused At Approval



APRIL-MAY 2026 LENDING ENVIRONMENT

-  Dynamic and Shifting
-  6%+ and Rising Pressures
-  Layered and Cumulative
-  Cautious and Reassessing
-  Interrupted and Uncertain
-  Risk Emerging in Execution

2023 Approved deals were expected to settle



2026 Approved deals may not make it to settlement

Strengthening Lending Execution in a Changing Market

Across April–May 2026, one theme is consistent.

Deals are not failing at approval. They are failing in execution.

In this environment, certainty is achieved through alignment, structure, and disciplined execution.

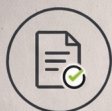
Green Mortgage Lawyers supports lenders by strengthening the connection between approval and settlement — reducing friction, improving clarity, and helping ensure that deals progress as intended.

Approval is no longer the benchmark.

**Execution quality and settlement certainty
now define lending performance.**



SETTLEMENT
The successful outcome



APPROVAL
The starting point



SOURCES & REFERENCES

The Data Behind the Insights

Reserve Bank of Australia (RBA)
Monetary Policy Statements, Cash Rate Decisions,
and Lending Indicators
<https://www.rba.gov.au>

Australian Bureau of Statistics (ABS)
Consumer Price Index (Inflation), Household Spending,
Economic Indicators
<https://www.abs.gov.au>

Australian Prudential Regulation Authority (APRA)
Banking Statistics, Household Lending Data, Financial Stability Insights
<https://www.apra.gov.au>

Property & Lending Market Data

CoreLogic Australia
Housing Market Trends, Property Data, Lending
and Borrower Behaviour Insights
<https://www.corelogic.com.au>

Australian Competition and Consumer Commission (ACCC)
(Optional but credible if referenced later)
Fuel Price Monitoring and Cost of Living Data
<https://www.accc.gov.au>

Global Economic Outlook

International Monetary Fund (IMF)
World Economic Outlook and Global Financial Stability Reports
<https://www.imf.org>

Organisation for Economic Co-operation and Development (OECD)
Economic Outlook, Inflation Trends, and Global Lending Conditions
<https://www.oecd.org>

EXECUTION IS WHERE DEALS ARE WON

In today's lending environment, strong approvals are no longer enough.

Deals are being tested between approval and settlement — where borrower capacity is shifting, structures are being challenged, and timelines are under pressure.

Green Mortgage Lawyers works with lenders to strengthen this critical phase of the lending lifecycle.

See what is driving better execution and settlement in legal lending.

[→ Watch the GML Key Trends Video Playlist](#)

Bringing clarity to your loan structure.
Alignment to legal documentation.
And confidence in every mortgage settlement.

