tileawealth
financial services

Ways to Increase your Borrowing Capacity

1. Consolidate unsecured debts into your mortgage

Typically, unsecured debts (such as personal loans and credit cards) have short repayment terms that force you to reduce your debts with high monthly repayments. These high repayment levels impact the bank's calculation of your ability to pay your mortgage because unsecured debt limits the amount of uncommitted funds you have available to repay the proposed mortgage.

2. Reduce excess credit, especially credit cards

When most lenders assess your ability to repay a mortgage, they assume that your credit card will be fully drawn up to its limit.

If you have any unused credit cards, or credit cards with limits that exceed your need for credit, cancelling or reducing the limits should improve your lending capacity.

3. Keep financial records up to date

One of the most common reasons borrowers find themselves well short of their anticipated borrowing levels is that they don't have up to date financial information to prove their income levels to the lender. Simply completing your tax returns on time can help your mortgage adviser secure the loan you're after. This is particularly relevant if you are self-employed.

It's also important to show your overall income to your lender, not just your last two payslips. In many cases the last two payslips required by a lender may not give a clear picture of your true income. In the situation where you may have a low base salary but high bonus payments, providing your last two payslips could be a disadvantage. Most lenders will be able to provide an alternative way to assess your income which can be based on a group certificate from your employer or even a notice of assessment from the Australian Taxation Office.

Concentrating on the bigger picture of annual income rather than the most recent payslips may help.

4. Select the right loan product

Even within one financial institution there can be a big difference in borrowing capacity levels based on the product you select. Product features such as interest-only repayments, fixed rates, variable rate discounts and lines of credit can all impact how much the lender will offer.

5. Be aware that income type is treated differently by nearly every lender

Lenders can be very selective with it comes to the type of income they include in their repayment capacity calculations. Some income types may be excluded altogether by one lender but fully included by another.

Almost every lender treats income derived from dividends, second jobs, child maintenance payments, company profits, bonuses, commissions, government benefits, annuities and rents differently.

Navigating your way around this maze is very difficult and time consuming. Fortunately an experienced ‘credit representative’ (the new term for ‘mortgage broker’) will access to this information and can assist you to choose a lender that is most accommodative of your individual situation.

6. Shop Around

It may sound obvious but paying a lower interest rate should save you hundreds of dollars on annual loan repayment commitments and thus increase your initial affordability.

A decrease of 1% on your home loan rate may free up your cash flow by $260 a month on a $400,000 loan. This has the same effect of getting a net pay rise of $3,120 per annum.

However, it is important to take into account other fees and charges that may come with a lower interest rate!

7. Split your liabilities with your partner

If you’re planning to buy a property under your name only, you can split your expenses on paper with your partner.

For example, two children listed as dependants may not be counted as your dependants if you can prove that your partner does <u>and will</u> continue to provide for them financially. This is particularly relevant if you are separated or divorced.

8. Use your properties as cross collateral

Using your property as cross collateral (or cross security), means you provide an existing property as a security to buy another property. However, there are pros and cons with this strategy.

On the one hand it may increase your serviceability to the extent you may borrow at a higher loan-to-value ratio (LVR). This may also save you money on lenders mortgage insurance when you borrow above the lender’s threshold.

On the other hand, in the event of you being unable to meet the loan repayments; the lender may repossess the securities, which could put multiple properties at risk.

9. Save, save, save

Build up as much deposit or equity as possible. If you're using a deposit to secure your loan, be sure to have saved consecutively over at least three to six months, depending on the lender.

As Credit Advisers we are able to assist you with all facets of home and investment lending including:

- Refinancing
- Borrowing structures
- Debt consolidation
- Accessing equity for investment
- Understanding the risks associated with debt

Our Advisers are members of the Mortgage Finance Association of Australia (MFAA) and the Australian Financial Complaints Authoirty (AFCA) and would be pleased to assist you with your lending needs. Please contact our office on (07) 3160 2600.