WHAT YOUR LENDER DOESN'T TELL YOU...

Have you delayed buying your next property due to tough lending standards or the economic downturn?

There are several reasons why you should be more optimistic…

There is no doubt that the stricter lending standards (introduced following the Banking Royal Commission) have put a dampener on many Australians purchasing their next property.

Some of you may know people who have been rejected for a loan recently and might be thinking that there's just no point in applying for a loan right now.

However, if you know more about the approval policies and lending criteria the financial institutions use, then you may very well be surprised and could be heading towards your new property right now.

Lenders don't often make their approval policies public, and that's possibly why mortgage brokers are more popular now than ever.

Nearly 60%[1] of borrowers are now using mortgage brokers because they understand the various lending criteria across many financial institutions and help take the guesswork away for your loan application.

Lending criteria you are not told about

☑ **There are age restrictions**

Firstly, you must be over 18 years to secure a home loan. While there is no maximum age limit to qualify for a home loan (thanks to anti-discrimination laws), lenders have a responsibility to ensure that borrowers can repay their debt.

Considering the term of a home loan can be up to 30 years, 'older borrowers' (those over 50) are now usually required to provide a mortgage exit strategy because their working life is decreasing as they approach retirement.

If you find yourself in this category, it means you need a plan to present to your lender that maps out how you are going to repay your home loan over the applied term.

Most people would not know the first thing about creating an exit plan. That's where we step in – to help you create a plan and document for the lender as to why we believe you are a safe bet for that loan period.

☑ **Your employment type and status are considered**

The length and type of employment (eg full time versus casual OR self employed) could impact your application.

Having your employment history reported and explained correctly could be the difference in being approved or not, so don't go it alone on this one.

How they view your financial position

Lenders will scrutinise your income (including overtime and bonuses), spending patterns, financial history, assets, liabilities and expenses.

Most importantly, they want to ensure you have the financial capacity to repay the debt.

Just like your exit strategy, your financial position needs to be presented and explained in the most positive light for approval.

How they determine the amount you can borrow

The size and type of home loan will affect how the lender will view your loan application.

Your loan will be heavily influenced by the size of your deposit because lenders place a considerable emphasis on the loan-to-value ratio (LVR). The bigger your deposit, the lower the LVR and the more favourable your application will be. If you have less than a 20% deposit, lenders' mortgage insurance (LMI) will typically apply and can be costly depending on the size of the loan.

There are some new incentives for first home buyers where the LMI can be removed or reduced for deposits under 20%, but of course certain conditions apply for these exemptions and discounts.

The property use will affect your application

The reason for borrowing will influence the type of loan available to you and the amount borrowed.

For example, investment loan criteria is different to an owner occupier criteria.

Investment loans are sometimes easier to approve as there are incentives and potentially less risk with serviceability due to rental income contributing to the loan repayments. There are also tax deductible expenses and depreciation items that help make an investment property a more secure proposition for most lenders.

Investment loans typically attract higher interest rates, however as an investor your interest is tax deductible.

If you are a first home buyer and can benefit from the various government incentives, this may also make your application more favourable.

They check your credit score

Lenders will use your credit score in their application assessment. The score, calculated by credit reporting agencies, is based on many factors such as repayment histories, overdue accounts and credit limits amongst others.

A lender may reject your loan application due to a negative repayment history on your credit report. This is where we can assist you by accessing your credit report prior to submitting an application. We can help you clean it up BEFORE your application is submitted to a lender and perhaps avoid spoiling your chances of approval.

For those who are finance savvy, 'on time payment' people, a good credit report should make your application more favourably viewed.

Chase Finance Pty Ltd

Kent Town SA 5067 Toorak VIC 3142

1300 137 045

finance@chasefinance.com.au

www.chasefinance.com.au

Source: 1 MFAA, Home loan market share increases strongly as brokers assist borrowers through challenging times: mfaa.com.au/news/MFAA-June-quarterly-market-share-mortgage-brokers

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