How much can I borrow?

Before you commit to purchasing a home or investment property it is important to estimate exactly how much you need as a deposit and how much you can afford to borrow.

We recommend that before you commit to 'signing on the dotted line' you obtain pre-approval for an amount to allow you to comfortably complete on the purchase of your proposed property.

How much you can borrow will be determined having regard to:

Your income

Your income is the most important factor in determining the amount you are able to borrow. You will need to provide evidence of your income including copies of your most recent payslips and income tax returns. You will also need to demonstrate that you have the ability to earn this income over the longer term. Your normal income does not include a one off bonus and/or irregular overtime.

Your financial commitments

Lenders also look at your current financial commitments including payments for car loans, personal loans, lines of credit, credit cards and store cards. These payments will be deducted from your income. You should also be aware that lenders will calculate your commitments having regard to the repayment required should your credit/store cards be at their maximum limit. Lenders will also ask you how many dependent children you have to factor in the extra cost of living.

Your savings

Most lenders require a deposit of 20% of the purchase price. This is normally paid from your savings if it is your first home. Obviously the larger the deposit, the more you are likely to be able to borrow.

Generally if you do not have a 20% deposit you will have to pay lender's mortgage insurance.

A good savings history will look good for your loan application as it demonstrates your discipline in making regular payments. Rent is now often considered as part of your savings history.

Your assets and liabilities

Your net worth will assist the lender to assess how much you can borrow. If you are borrowing for the purchase of an investment property you may be able to borrow more than 80% of the purchase price without paying lenders mortgage insurance by providing the necessary security through a mortgage over your existing home or other property rather than using your savings.

Interest rates

Interest rates determine the cost of borrowing. Accordingly when interest rates are high so are the mortgage repayments thus reducing your borrowing capacity. Lenders will normally determine how much you are able to borrow utilising a slightly higher interest rate (typically 2%) than is currently available to allow for interest rate fluctuations.

Term of the loan

Even if you are applying for an interest only loan the lender will determine your ability to repay the loan principal. Accordingly the lender will include in your commitments the repayment of the loan balance over a certain time frame. For example, if you choose a loan term of 30 years instead of 25 years, your repayments will be lower. By extending the loan term you could borrow a greater amount with some lenders offering terms of up to 40 years.

If you would like to discuss your loan options, call the office and we will be happy to assist.

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