How to increase your borrowing capacity

Maximising the amount a lender will hand over to you isn't about trying to take on unmanageable levels of debt. It's a matter of taking a few simple but smart steps that would give a better chance to owning your dream home.

1. Shop around for lenders

Different lenders define income in so many different ways that it pays to use a credit adviser who knows their way around what's included and what's not. One lender may allow share dividends as income, while another lender may not.

2. Shop around for the right mortgage

A good credit adviser will help you choose the most appropriate mortgage. Even with one lender, your borrowing capacity can vary due to the loan type that you choose. If you add features such as a line of credit this can reduce the amount you can borrow.

3. Update your financial records

Try to have your PAYG income tax return as up-to-date as possible. This gives a better historical view of your income than just the two most recent payslips.

4. Check your credit rating

Check your credit rating before applying for a mortgage. Due to changes to the Privacy Act from 12 March 2014, your rating may not be as healthy as you thought. The national credit reporting agencies are Veda, Dun &Bradstreet and Experian. Find out more here: http://www.oaic.gov.au/privacy/privacy-topics/credit-and-finance/how-do-i-get-a-copy-of-my-credit-report

5. Roll your debts into your mortgage

Unsecured debts such as personal loans and credit cards have expensive monthly repayments, and these monthly repayments cut in to the amount you can repay on a mortgage.

6. Reduce debt and credit limits

If you have unused credit cards with limits that are more than you need, then cancel those cards. Also, cancel any other cards – such as department store cards – that give you credit. Every $1000 on a credit limit – even if not spent – detracts from the amount you can borrow.

7. Investigate family pledges

Guarantor or family pledges may let your parents or family take out a second mortgage on a percentage of their own property to guarantee repayment to the bank if you fall behind.

8. Consider shared equity

Some lenders will give you a larger mortgage in return for a certain share of the profits when you sell. If you don't make a profit, then the lender does not take a share.

9. Take a long loan

While 25-year mortgages have been the norm, that's changing to 40 years in some cases. A longer loan cuts your repayments, but increases the total interest you will pay over the life of the loan.

10. Save more of the deposit

Lenders look for consistent saving records, preferably for more than six months. Saving more can be as simple – or as hard – as doing without that extra coffee, or taking your lunch to work each day. It all adds up and reduces the amount you need to borrow.

For more information, please call me on **04 3984 1952** or email **info@eleganceaccounting.com.au**