BOOST
your borrowing power

Are you looking to enter the property market or upgrade your existing home but it seems to be just out of your reach?

Many of our clients are keen to understand what influences their borrowing power and how they can improve their borrowing capacity to be a step closer to their next home or investment property. Did you know that your credit card limit directly impacts the amount you can borrow? With a simple change it can also be one of the quickest ways to increase your borrowing capacity! Lenders don't just look at the outstanding balance of your credit cards and your minimum monthly repayments when assessing your loan application. In fact they look at what your total repayments would be if you used the credit card limit in full even though it may not be utilised. The lenders' rationale is that you have the ability to utilise the limit, so they must take this into account when determining your repayment serviceability.

Therefore if you have significant credit card limits that are not being used you could be detrimentally impacting your borrowing capacity.

How much could this impact your borrowing capacity if you are trying to purchase a property?

Let's look at the following scenario.

Credit card	Current balance	Card limit	Minimum monthly repayment* on balance	Minimum monthly repayment* on credit limit
Card 1	$2,500	$10,000	$75	$300
Card 2	$2,000	$7,500	$60	$225
Total	**$4,500**	**$17,500**	**$135**	**$525**

When assessing your loan the lender calculates your monthly financial commitment on the maximum credit limit of $17,500 (equating to $525 per month) NOT the current balance of $4,500 (equating to only $135 per month). The difference of $390 per month could be used as repayments towards your new property loan. This $390 per month could equate to an additional borrowing capacity of approximately $63,500 (based upon a 25 year loan at 5.5% pa interest rate).

Importantly, interest free cards will also reduce your borrowing power. Even though many cards are interest free the lender will assume a monthly commitment against the limit of the card (generally at approximately 2.5% per month) to allow for the amortisation of the principal.

What can you do?

1. Cancel unnecessary credit cards and store cards to consolidate your credit card debt. This will reduce your monthly financial commitments and free up your income for other repayments. Do you really need more than one credit card if it is directly impacting your borrowing capacity?
2. Reduce the limit of your cards to the minimum practical amount for your personal situation.

The impact of reducing your credit card limit

For every $1,000 that you reduce your credit card limit, your monthly available income will be increased to between $30 and $50. This generally equates to an increase in borrowing capacity of approximately $6,500.

Before you do anything call the office today to determine if reducing your credit limit will boost you borrowing power. We will assess your personal situation and determine the best way to maximise your borrowing capacity.