

BORROWING POWER

How a simple change can improve your borrowing capacity

Are you interested in entering the property market or upsizing your existing home? Does it seem to be just out of your reach?

Many of our clients are keen to understand what influences their borrowing power. If you know how you can improve your borrowing capacity you may be a step closer to your next home or investment property.

Ultimately, all lenders look at your ability to service the loan. To determine this they look at a number of factors to ascertain your:

- capacity to repay
- financial risk
- collateral (will the property you are buying be adequate security for the amount borrowed?), and
- existing assets

The impact of credit cards

Did you know that your credit card **limit** directly impacts the amount you can borrow for your mortgage? **With a simple change it can also be one of the quickest ways to increase your borrowing capacity.**

Many people don't realise that 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 use up to the full limit on your card(s) so they must take this into account when determining your repayment serviceability.

Of course, the greater the number of credit cards you have and therefore the higher the **total credit card limit** you have then the more this will impact on your borrowing capacity.

This could be the difference between achieving and NOT achieving your property dreams.

Let's look at the table above:

In this example the lender will calculate the minimum monthly repayment on the maximum credit limit of \$17,500 NOT the actual \$4,500 balance. So they are assessing your application based on possible repayments of \$525 per month as opposed to the \$135 per month you are actually paying (at the time of your application). **That is a difference of \$390 per month** that could be used as borrowing capacity towards the repayment of a property loan!



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

*The minimum monthly repayment amount required can vary between 1.5% and 5% of the overall limit on the card (depending on the financial institution and the card type). A middle ground of 3% has been used to calculate minimum repayments in this example.


Increasing your servicing capacity by \$390 per month could increase your borrowing capacity by \$72,000 assuming an interest rate of 6.5% on an interest only loan. That's a significant increase relative to a credit card limit of \$17,500!

What can you do?

- Consolidate your credit card debt and cancel unnecessary cards. This will reduce your monthly interest repayments and free up income for other repayments. *Do you really need more than one credit card if it is directly impacting your borrowing capacity?*
- Reduce the limit on your cards to the minimum practical amount for your personal situation.
- If you have lots of credit cards and significant debt, consolidate all debt and embark on a strict strategy to pay it down. Once you have cleared the debt you can re-explore your borrowing capacity.
- Understand and improve your credit score. Your credit score is a mathematical assessment of the data in your credit report. Your credit report contains a history of your credit related financial information over the past five years.

Once you have reduced your outgoings each month this additional income can now be considered by lenders as available

income that can be applied to your mortgage repayments. This can boost your borrowing power and take you one step closer to fulfilling your property dreams.



Call the office...

for a copy of our article 'Getting ahead financially through debt consolidation'.

Ready to explore your borrowing capacity? Call us today for an appointment.