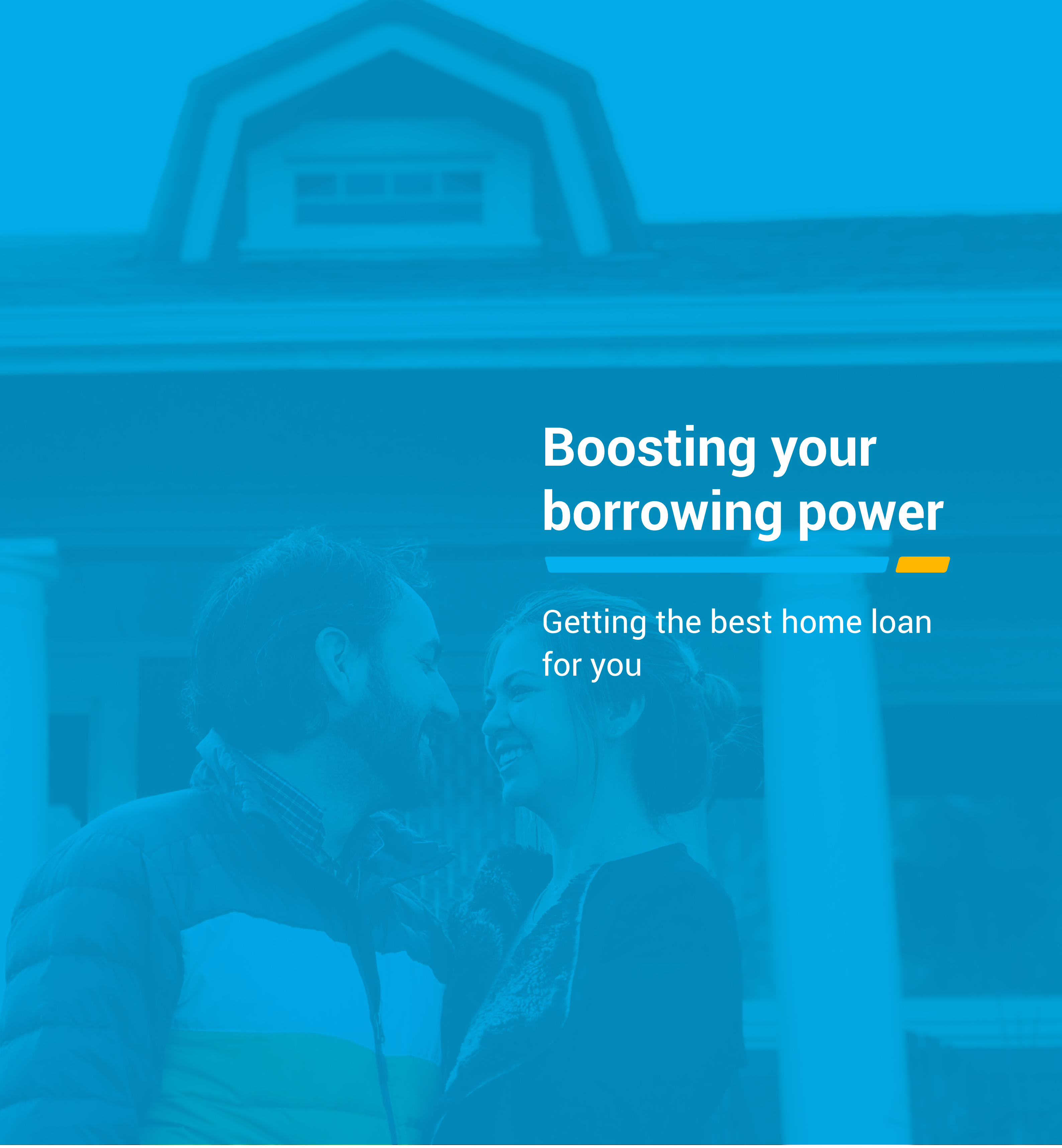

Boosting your borrowing power

Getting the best home loan for you

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Owning your home is integral to living the Australian dream - at least, according to 41 per cent of Australians surveyed by McCrindle Research.

In order to chase that dream, however, you need to understand where you're going and how to get there. That's why it's vital you understand borrowing power and how you can leverage it to find a home loan that works for you.

Simply put, your borrowing power is a term used to describe the potential value a lender will let you borrow. There are a number of different factors that contribute to your borrowing power - so knowing these puts you in control of your home loan.

1. Income and living expenses

2. Loan to value ratio (LVR)

3. Your chosen postcode

4. The loan term and rate

5. Your credit history

1 Income and living expenses

A lender will assess both your income and commitments, including living expenses, to determine your ability to service the loan. This means that a simple way to boost your borrowing power is to seek out a raise at work or move to a higher-paying job.

Income can also include rental income, commission/bonuses, dividends, pensions, superannuation benefits, child support or family tax benefits. However, it's not just about how much money is coming into your account every paycheque - rather, what's left once you've covered day-to-day expenses.

Your detailed living expenses include any ongoing expenses such as existing mortgages, utility bills and groceries, but also include discretionary expenses such as leisure and entertainment, holidays, the gym or personal grooming.

At Police Bank, we work closely with you to document your income and living expenses, allowing us to calculate your ability to service the loan you have applied for.

2 Loan to value ratio (LVR)

A major factor that affects how much you'll be allowed to borrow is the amount you can put down as a deposit. The LVR is calculated by dividing the loan amount by the total value of the home and multiplying that by 100 to express as a percentage.

If you have $100,000 saved for a deposit and the home you're looking at is valued at $700,000, the loan amount is $600,000. The LVR would be calculated as 85.7 per cent which is fairly high. However, you may be able to pay for Lenders Mortgage Insurance (LMI), allowing you to secure a home loan sooner.

LMI is a once-only premium insurance product that protects your lender from loss of income if you default on payments. While it is an extra expense, it can also be added onto your loan, becoming a part of your monthly repayment.

The maximum LVR you can apply with will depend on other factors such as your income and location, however an LVR of 80 or less is recommended if you wish to avoid paying lender's mortgage insurance (LMI).

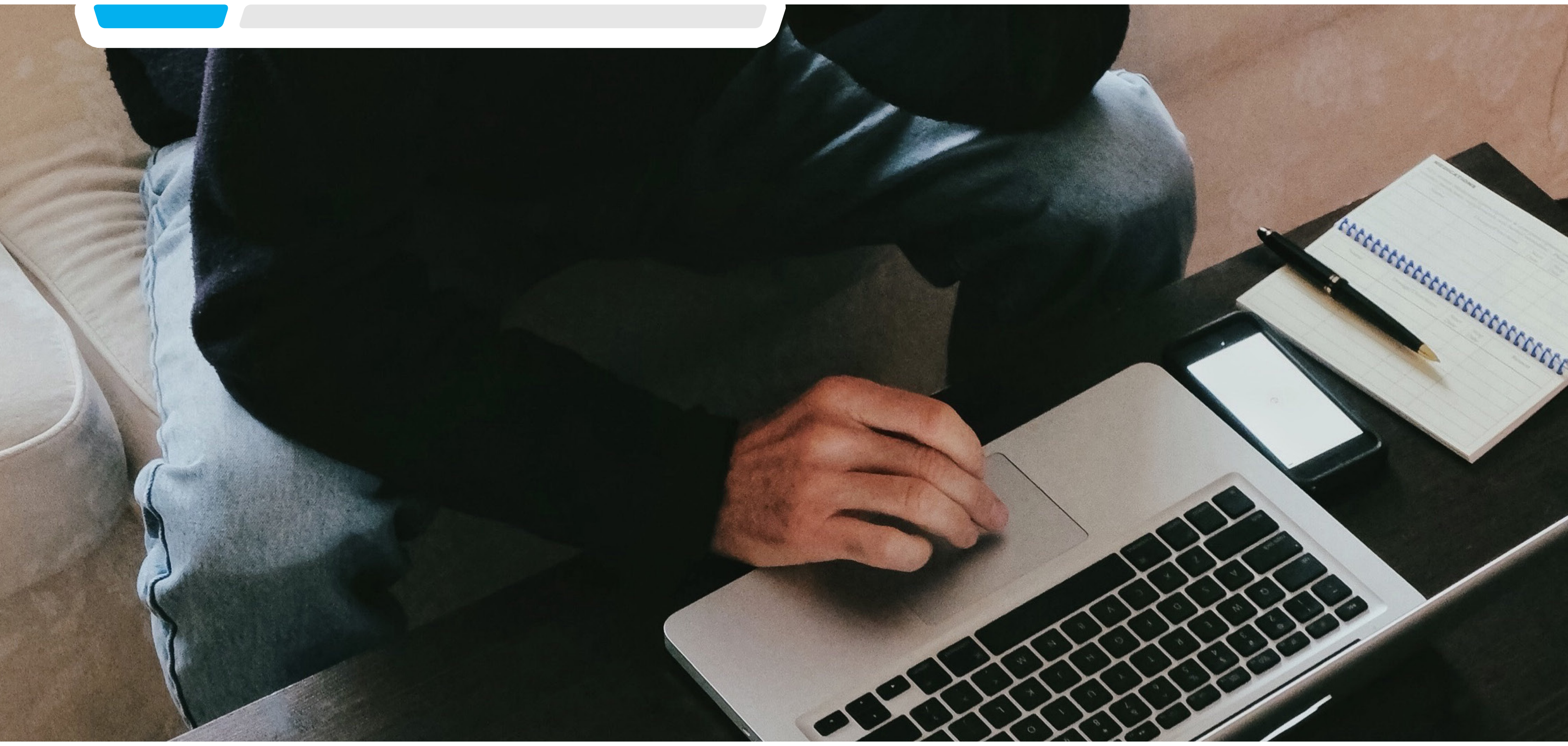
3 Your chosen postcode

Believe it or not, where you choose to live can affect your ability to get a home loan. This is because some lenders may require as much as 30 per cent of the home's total value as a deposit if the post code has been blacklisted.

Let's take Western Australia's Port Hedland - CoreLogic reports a median house price of $373,000, meaning you would need a minimum deposit of only $37,300 assuming no lending restrictions applied to the post code (though, bear in mind there are other costs to be paid with only a 10 per cent deposit). If this post code were blacklisted, you would need to have $111,900 to qualify for a home loan.

It can be hard to know which postcodes will require a heftier deposit, though they tend to be smaller towns with greater property fluctuations.

4 The loan term and rate



The length of your loan will affect how likely you are to be able to pay it off, as a shorter loan term will increase your monthly repayment amount.

Say you have a loan of $500,000 at a fixed rate of 3.99 per cent. As a standard 30-year mortgage, this would mean monthly payments would cost $2,384.19, based on our loan repayment calculator. Meanwhile, if the loan were to have a 20-year term, monthly repayment would be considerably more expensive at $3,027.27.

The rate you choose will also impact your repayment amount. A variable rate loan will often be assessed at higher than the current rate to account for fluctuations whereas a fixed loan will generally be assessed at the advertised interest rate.

5 Your credit history

Being able to prove you can be trusted to service your loan will go a long way. Missed bills and credit card repayments can work to lower your credit score.

Before applying for a loan, it could be a good idea to acquire your credit history from a credit reporting body and address any red flags.

You should also consider consolidating your debts and cancelling unnecessary cards. This way, you aren't making additional interest payments and can better afford a mortgage. Many lenders will also look at the maximum limit of your cards, not just the existing balance, when assessing your expenses.

Should I utilise the full extent of my borrowing power?

Now that you know how you can influence your borrowing power, it begs the question: **is it sensible to borrow as much as possible?**

You may only need a small deposit to secure a home loan, but putting down more up-front could mean you enjoy a better quality of life in the long-run. Non-basic expenses such as travel and holiday costs aren't included in your cost of living calculations, meaning borrowing to your total capacity could limit your ability to see the world. At the same time, there are additional costs of home ownership that lie beyond your mortgage, such as maintenance, stamp duty and council rates.

Landing your very own home is a challenging, rewarding and ultimately life-changing experience, so make sure you get there the right way.

Integrity is at the core of our values here at Police Bank. As a mutual bank we are owned by our Members, so it's important to us that loan products are offered responsibly and anyone can head into their mortgage confidently. Talk to us today about your first home loan and how you can borrow sensibly.

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