

Home Loan Myths

1. If I have 20% deposit I can get a home loan – Not quite as lenders will also want to know you can service the loan. A borrowing capacity will determine how much you can borrow based on your actual income. For PAYG, usually lenders will ask for **two recent payslips** and for self employed **2 years of financials**. Some lenders will allow 5% deposit (with LMI) if loan can be serviced and other criteria are met.
2. My bonus/overtime each year means I can borrow more – Not quite - most lenders will use **less than 100%** (some as low as 50%) of your overtime or bonus to work out if you can service the loan. This will also depend on industries, during this pandemic some lenders will not include overtime/bonus for applicants in impacted industries.
3. My credit card balance is nil, so I can borrow more – Not quite lenders will always **use your credit limit** (not credit card balance) in working out your borrowing capacity. If you have multiple credit cards/store cards which are not used, closing one or all will improve your borrowing capacity.
4. If I cannot pay my home loan I am covered by Lenders Mortgage Insurance (LMI) - No, LMI covers the lender not you. If your application is subject to LMI, your application must be assessed and approved by **both the Lender and the LMI provider**.
5. If I have bad credit I cannot get a loan – Not quite, some non-conforming lenders can lend to applicants with defaults, over limit credit cards, poor credit score etc however it is very likely that the **interest rate will be higher** due to perceived risk. It is recommended to proactively manage your credit file and credit score at 6-12 months prior to applying for a home loan.
6. My bank manager can offer me same loan products as a Broker – No, the bank can **ONLY** offer you their own home loan products. A Broker has **access to over 45 lenders** including the big four banks and non bank lenders.