LENDING MATE™

The MUST read before you borrow money?

#borrowersadvocate
#lendingequality

Vital questions to ask before you apply for a loan

Have you ever watched an advert on TV for a financial product and thought "wow that looks easy"? Unfortunately, if you apply for a loan unprepared you could be setting yourself up for failure. Why? There appears to be very little quality information about the basic terms and conditions that will help you find the right lender for YOUR circumstances.

When looking to buy a new car you can find out all you need about it via brochures, reviews and even test drive it. Yet, when borrowing money for some of your biggest assets like your home, investment property or even business venture, very little is known about the process of applying or the policies that you have to meet in order to access the funds.

We know your time is precious so we have created this list of questions which are the absolute minimum you should ask yourself and your prospective lender BEFORE you apply for a loan. NO matter what purpose you are looking to borrow money for, there may be more questions you need to have answered for your individual circumstances. Our door is always open if you need any further clarification.

Our Mission

Everyday our helpful and caring team transform the borrowing experience with a people-first, results-second approach, to demystify and simplify finance for Australian homeowners.

Our community values a safe, open and honest environment where they are heard, understood, and provided with transparent guidance and options at various stages throughout their life.

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Ultimate questions for my success

Is my credit history acceptable?

Imagine deciding to refinance your debts, knowing you will save some money or finding your dream property and making an offer, to then be told something on your credit file stops the loan proceeding! What do you do? We recommend clients order a copy of their credit file for themselves once they know they are seriously looking to apply for finance. You can get yours from a Credit Reporting Board such as www.equifax.com.au, www.dnb.com.au or www.experian.com.au.

Read it carefully. Are there lots of credit enquiries? Are there any late payments or defaults listed? Have a trusted adviser review it with you if you have any concerns. Lenders will do their own but it is always good to know if there are any glaring issues before you apply.

Have I been in my current employment long enough?

Every lender has different rules surrounding the length of time you need to be in your current position. Contract, casual and part-time employment is looked at differently by lenders so check if they will accept your status if you are not a full-time employee. For example, if you have been previously employed in retail but now doing Accounting, the lender may need you to “serve your time” in your new role before applying for a loan. Yet if you have been in retail for years and now moved to another retail position you may not need to wait as long. If you’re self-employed ask the lender if your ABN & GST (if applicable) registration dates meet criteria? Will your business structure cause any issues? Are your tax returns adequate?

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Will my income allow me to borrow what I need?

With credit assessment tightening up check with the lender before you get too excited about your plans. The amount you may be able to borrow is determined by taking your Nett income (wages/salary, Government benefits, other income earned), and then deduct from it living expenses and any liabilities such as credit cards, loans and other debts. The left over is what is used to see if you can afford to make repayments and therefore how much you could borrow. Some lenders will only use certain types of income for borrowing purposes and only accept Government benefits such as Family Tax Benefits for children up to a certain age. If you are self employed, what do your financials show? Turnover, expenses, income that is taxable? Is it enough to allow you to borrow what you need?

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Do I have enough money saved to cover the purchase? Does my savings pattern satisfy the rules?

The money you have available for the purchase will need to be evidenced via bank statements, so have these handy. You need to show the lender where the money came from (saved, gift, inheritance etc). Every lender has different rules as to the type of and how much they would need saved so it is important to understand upfront how the lender decides what is "genuine savings" or what will satisfy their funds to complete the sale rules. It is all well and good to have some money saved but you need a minimum amount and this can vary widely between lenders.

What are Genuine Savings?

'Genuine savings' is when the customer can show a consistent pattern of savings over a period of at least 3 months. The usual minimum is 5% of the purchase price plus costs such as Government Stamp Duty (if purchasing), application & legal fees etc but some lenders may need 10% plus costs saved or more. If you have had a lump sum placed into your account you MUST check with the lender if this is acceptable. Some lenders advertise only needing 5% of funds but forget to mention the costs factor which could add up to many thousands of dollars and mean your dream of buying is put on hold for much longer. Keep in mind there are many lenders who do not need genuine savings so ask the lender first.

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What is the maximum Loan To Value Ratio that you will lend up to for my situation?

Lenders have rules around the proportion of the property's value they will lend up to and it is usually expressed as a percentage like 80% or 95%. It can vary between lenders and will depend on a number of factors. These can include:

- whether you are purchasing or refinancing,
- if the property is one you live in or an investment.
- Certain locations/postcodes and apartments can have restrictions as they may be seen as higher risk by the lender.

A first home buyer that fits the "box" may be able to borrow up to 95% of the value of the property, whereas someone with credit concerns or buying in a certain postcode may only be able to borrow up to 85%. See other points for more details.

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Can I order an upfront valuation BEFORE I apply?

With property prices fluctuating and even declining in some areas wouldn't it be good to know what your property is worth BEFORE you fill in all the paperwork and apply for a loan? Many lenders will allow you to do an upfront valuation, which is particularly useful if you are needing to access equity to pay out other debts. Why? Australians love to estimate what their home is worth. You may think your property could sell for $600,000 but when a lender values the property they may be more conservative. Your $600,000 estimate may be valued at $530,000 by a lender. This may mean that the amount you can borrow is reduced, hence not be able to pay out other debts or get cash out for renovations. Lenders will only lend money to a certain percentage of the assessed value of the property by a valuer NOT what you think it may be worth.

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Do I have enough equity in my property to make it worthwhile refinancing?

Lenders will typically not lend as much on a refinance as they will for a purchase. Refinances are usually limited to a certain percentage of the value of the property. Will Mortgage Insurance or Risk Fees (that you may have already paid with the current loan) be payable again if you refinance? This may not make it worthwhile refinancing as this cost could outweigh the benefit of a lower interest rate or savings had from the consolidation of debts. Run the figures first.

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Does the property I own or are buying meet your security guidelines?

Is the property postcode, land size, location, zoning and state of repair within what the lender will accept? This is important to ask because every lender has a different “appetite” for properties they lend money for. Some lenders may accept a property on the outer fringes of the city that has no mains water, septic tank, and in a bushfire zone yet others will not. Likewise, lenders have rules surrounding apartments and city locations. For apartments, are the internal dimensions in square metres big enough and/or how many stories or apartments are in the complex?

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Is the Purpose of my loan application acceptable?

Many people think that if there is equity in a property you can pay out or consolidate anything if you qualify. This is not always true as many lenders have restrictions on what you can payout, such as tax debt and also have limits on the amount of personal debts you can consolidate with a home loan application.

What has the repayment conduct of these debts been like? Are there any late payments, over credit limits on credit cards, mortgage/loan arrears etc? These are often frowned upon by many lenders and could derail an application immediately. Will the lender allow the amount of cash out you need for renovations or maybe that new car?

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Will my age have any impact on the loan term or how much I can borrow?

Someone in their 30's could get a 30-year loan term quite easily as they have 35-40 years of "working life" left meaning their superannuation and assets will increase over this time. Yet someone in their 50's who has no real assets (due to a previous life event) and buying a property may have a lower loan term given or not approved at all as they have maybe 10-15 years left of work and nothing substantial saved for the future. What ages are most vulnerable? Naturally, EVERY application is based on its own merits and we never assume any outcomes but ages from 45 years and up we would recommend asking more questions of a prospective lender.

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Will the conduct of my current debts/account(s) held with the institution you are borrowing from affect your eligibility for a loan?

If you have had a credit card, personal loan, savings or transaction account, even a home loan with this lender either now or anytime in the past, then you need to take extra care before applying. Have a look or try to remember if these accounts were ever overdrawn or had late or missed payments. Even if it was a long time ago, you have a perfectly good explanation and things have changed, the lender may think twice about lending you more money.

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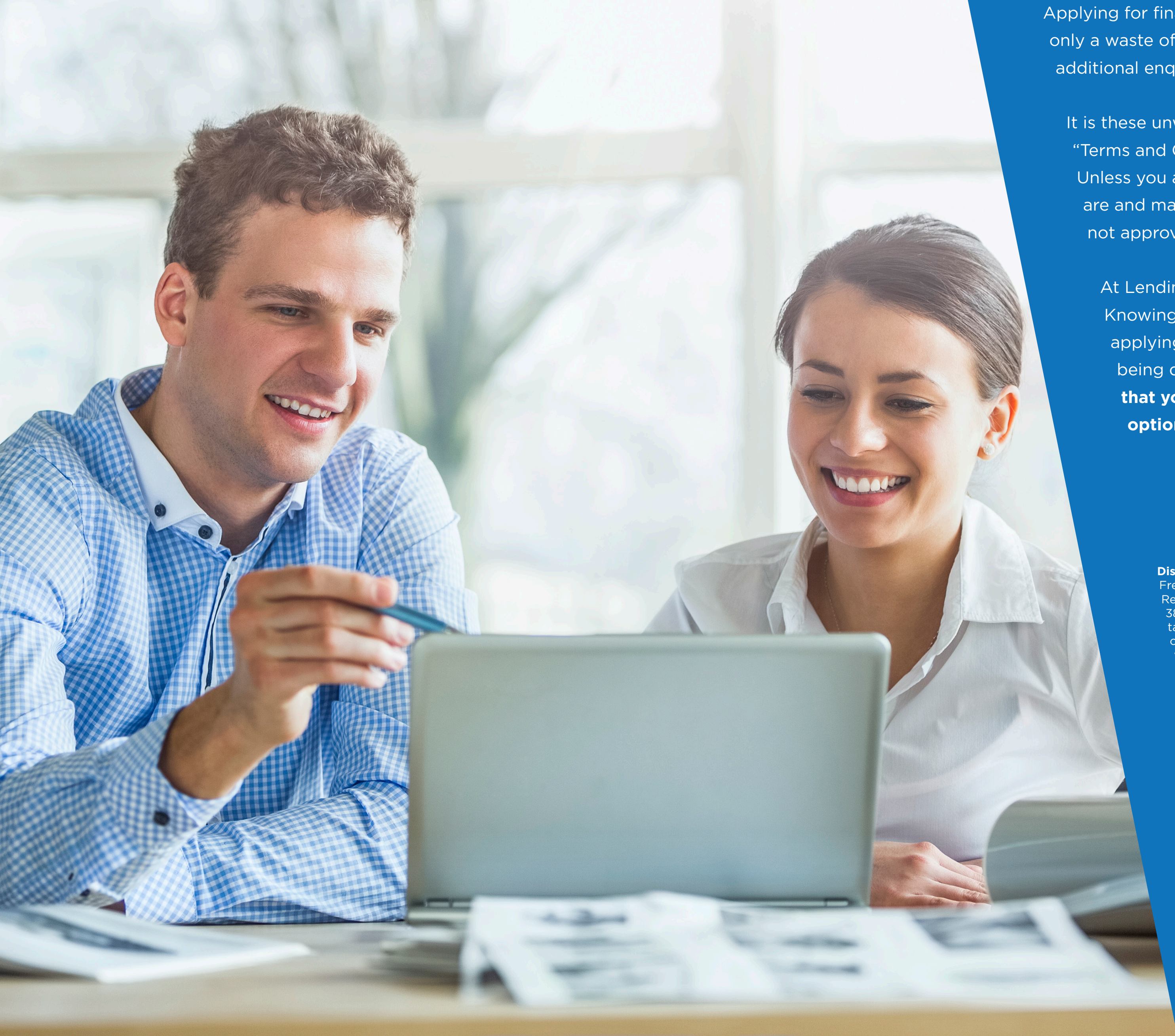
Exactly what documents do you need to see when I apply?

Paperwork is so annoying but necessary. If you knew exactly what was needed before you took time off work to apply for a loan wouldn't that make it easier? Applications can be delayed by having the wrong I.D, out of date pay slips or not enough bank statements showing the deposit saved. Get the list and take the time to gather exactly what is needed. This can save you a lot of hassle and running around later on.

Finally



Once you have asked your lender these questions and know exactly where you stand, you will be in a great position to start working on your loan application. Applying for finance before you know if you qualify to borrow money is not only a waste of your time but it may also harm your credit rating by putting additional enquiries on your credit file that have no hope of proceeding.

It is these unwritten rules and restrictions that are covered off by the "Terms and Conditions" fine print at the bottom of loan advertisements. Unless you ask the hard questions directly you won't know what they are and may very well be the reasons why your loan application is not approved.

At Lending Mate "**We fit policy to people, not people to policy**". Knowing your situation fits the needs of a lender upfront rather than applying for a loan (based on interest rate or an advert) and possibly being declined. **Plus if you have been declined or don't meet policy that you know why & also enlightened as to the other lender options available to assist you and how to access them.**

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