From finance rejection to $60k more available for you to borrow.

How does that work?

If you applied for a home or investment loan in the last 12 months or more you may have been rejected because of outdated serviceability criteria.

Well, we have some great news pending for you!

It may seem unbelievable (given the last few years of crackdown on Australian lending) but there is a light at the end of the mortgage tunnel.

APRA (an independent statutory authority that supervises institutions across banking, insurance and superannuation) is proposing to allow lenders to review and set their own minimum interest rate floor for use in serviceability assessments.

You are probably wondering "what does a serviceability assessment have to do with me?" **Potentially a lot!** Let us explain.

When applying for a loan, lenders assess whether you will still be able to meet your mortgage repayments if interest rates were to rise higher than they are at the time you borrow the money. This is considered as your 'serviceability' of the loan.

The 'serviceability calculation' lenders have been using over the past years has taken into account your regular expenses, your income[1] and your capacity to repay (or 'service') the loan at a 7% interest rate (sometimes 7.25%).

They have been using the 7%+ interest rate test regardless of the actual interest rate you will be securing for your finance (for example 3.75%).

With interest rates currently so low in our country (now lower than 4%) and expected to stay low for some time, the gap between the 7%+ and actual interest rates we can obtain for you has become quite wide.

Here is your good news!

This 7% serviceability test (set by APRA back in 2014) is currently under the spotlight. APRA is now open to amending its guidance on mortgage lending and has finished a month long consultation to gain insight for possible revisions.

The consultation process closed on 18 June and we are eagerly waiting for the final decision.

Lenders will be instructed to incorporate an interest rate buffer of ONLY 2.5% to the prevailing interest rate for your serviceability test.

"So what's the bottom line?" I hear you ask.

What if we told you that you could potentially borrow $60,000 more for your next home (or property purchase) than we could achieve for you 12 months ago? Well that is what we have calculated for some of our borrowers.

With this new serviceability rule:

- a family on an average income of $110,000, assessed at 6.25% (3.75% lending rate plus the 2.5% buffer) instead of 7%, could borrow up to $60,000[2] more than they could last year.
- a single person at the same rate could now borrow $50,000 more[2].

So combined with:

- low interest rates
- better serviceability tests
- the bottom of the property market

what would an additional $60k bring to the property table?

We love sharing this pending good news, however we can't emphasise enough the importance of you also taking into account potential interest rate rises when applying for a loan AND managing your existing finance.

Even though the 7.25% serviceability calculation will reduce, it is crucial you are still able to service your loan if and when interest rates rise in the future.

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Please note - it's not all about the interest rate either! As we mentioned, there are many factors lenders consider when assessing home loan applications.

What the HEM?

One other large factor is the Household Expenditure Measure (HEM).

This is a benchmark that lenders use to estimate a loan applicant's living expenses.

It is based:

- on the number of dependent children (if any),
- the state you live in, and
- your lifestyle.

We have seen evidence of lender scrutiny on people's living expenses and spending habits that have been a large contributing factor to many home loan and refinance rejections.

Many borrowers fail to accurately record their living expenses and fail to understand how this affects their borrowing capacity.

It is important you have the whole picture.

As your finance specialist, we have access to and experience with many different lenders. It is our duty to you to understand their serviceability and borrowing requirements. We also know how to create an attractive loan application, ready for approval.

Our role when working with you is to navigate you through the mortgage application process to present your finances in the best possible position for the lender's approval.

This is why our financial services could just be the difference in you obtaining that loan approval or not.

We look forward to hearing from you and helping you to tap into some better finance options.

1. *Canstar, What is home loan serviceability?*
2. *Financial Review/Rate City, APRA loosens regulatory screws*

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Ask us for our top tips to help you manage your spending and 'Make every dollar count'.

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