Six things to do today to boost your borrowing power by $130k

Sophie Foster
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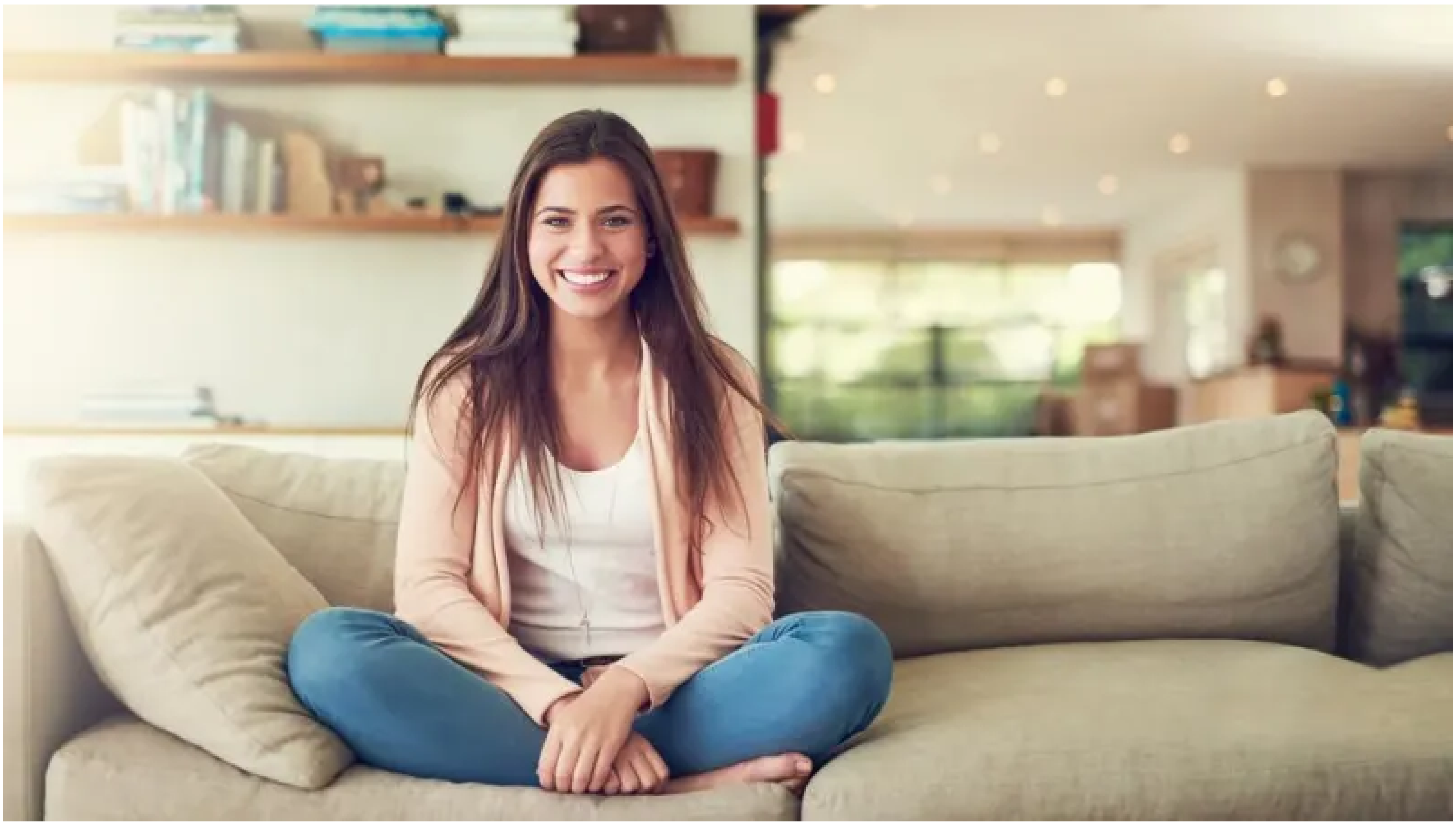

RateCity research director Sally Tindall says a six step financial makeover is crucial to secure higher levels of borrowing power in this market.

The average person could add $130,000 to their borrowing power by taking six clear steps from the comfort of their couch – and a warning, one of them involves getting stuck in with scissors.

Analysis by RateCity found a single person earning the average wage of about $92,030 could potentially boost their borrowing power by 36 per cent with a good clean-up.

“The scenario is based on someone earning the average wage before the rate hikes who hasn’t had a pay rise since,” according to RateCity research director Sally Tindall. “The person has a $10,000 credit card limit and is planning on applying for a big four bank basic variable loan with a 20 per cent deposit. They spend $2,400 in essentials each month (not including housing costs).”

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RateCity research director Sally Tindall. Picture: Tim Hunter.

She said if the person could secure a 4.25 per cent pay rise – which was RBA’s forecasted annual wages growth for the end of 2023, close their $10,000 credit card, switch to one of the lowest variable rates for someone with a 20 per cent deposit, and cut down their expenses by 25 per cent, they could potentially borrow an estimated $137,900 more from the bank.

“It’s astounding what cutting up a credit card, and cutting back on unnecessary spending can do to your chances of getting approved on a home loan,” she said.

The first step was to increase your income, she said. “If you’re a hardworking employee, ask your boss for a pay rise. It’s an awkward 10-minute conversation but it could boost your borrowing capacity by tens of thousands of dollars.”

She said banks often wanted three months’ of pay slips so be sure to ask well ahead of time.

Step two was to shop around for a low rate. “Banks stress test your finances on the rate you are applying for, plus an additional 3 percentage points. This means, the lower your variable rate, the more you are likely to be able to borrow.”

Make hard decisions and turbo charge your savings strategy to boost your deposit level.

Step three was to spend less and save more. “The bigger your deposit is, the less you’ll need to borrow, so turbo charge your savings strategy today. A larger deposit will also help you minimise or even remove the need to pay lenders mortgage insurance.”

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Serious consideration should be given to moving back in with parents if necessary to save and cutting major expenses like food.

Step four was to clean up your bank account. “Takeaway coffee, uber eats deliveries and multiple streaming services seem harmless but they are little luxuries that can go against you when you’re being assessed for a loan.”

Step five is where the scissors come in handy – to cut up and close down credit card accounts. “Banks have to assume you could max out your card, which can put a significant handbrake on how much you can borrow for your first home.”

The final step was to pay down other debts before applying for a loan. “Try to clear as much off these debts as you possibly can. Buy now, pay later spending can also raise eyebrows so it’s best to steer clear of these platforms as well.”

Ms Tindall warned that anyone planning to borrow every last dollar they could from the bank should consider alternatives given interest rate volatility.

“Starting smaller, opting for an investment property, waiting and saving up for a bigger deposit are options all worth considering before maxing out your borrowing capacity. If you are about to sign up to a new home loan, look at the debt you’re taking on and make sure you are comfortable with the mortgage repayments if rates rose a further 3 percentage points.’

She said “a loan is for up to 30 years and a lot can happen in this time”.

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