



How to Get a Home Loan

By [Graham Couper-Smith](#)

Do you want to buy a house? Worried about how to get a loan? This article will help you get your finance. With your home loan sorted, just find that house and join the mortgage belt! Banks make money by lending to you at a higher rate than they paid for the money. This means they want to lend you money!

There is one problem though: Their money making strategy only works if you pay the money back. If you don't pay it back, the bank loses money, so.. Most of the loan application process involves the bank satisfying itself you can, and will, pay them back. Sometimes it seems complicated, but in essence the banks just look at the three 'c's of credit.

Once you understand what this means, you just have to structure your affairs to make sure you will be 'bankable' and have your mortgage approved.

The three 'C's:

- C is for Character: In banker speak, this means: Is your credit history good? Usually if you have not defaulted on any loans or payment obligations to anyone, your credit will probably be fine. If you are not sure, obtain a copy of your credit report. This is easy to do in most countries and sometimes costs a small fee. If you have an unpaid account on the report, pay it. Keep the receipt. Work out what happened and write an explanation. Send a copy of the receipt to the credit report agency and tell them to show the debt as paid.
- C is for Capacity: In banker speak this means: Can you afford the repayments? If your net income is more than all your outgoings (including the new loan payment) this is a good start. Banks also use other tools including debt to income ratios. This means that your loan payments (including housing) shouldn't be more than roughly 1/3 of your income. If you can't quite afford a loan on paper and your debt/income ratio is too high, can you: Extend the term of a car loan? Sell something and pay a loan off? Close some credit cards (or even reduce the limits)? All these steps will help. Even if you want to (and can afford to) pay off auto loans faster, take longer terms and make the extra payments voluntarily - ensure no early payment fees apply. This can help your ratio as banks work on the contracted payments, not what you actually pay.
- C is for Collateral: In banker speak this means your mortgage. What can the bank sell to ensure its loan is repaid? The factors here are the valuation (appraisal) of the home, and the amount of your deposit. Banks love 20% down. If you can't come up with 20% often you can use a smaller deposit but need to pay a mortgage insurance fee to insure the bank. (Don't confuse this with mortgage repayment insurance where an insurance company pays your loan payment if you are sick or incapacitated).

The valuation is important because sometimes the asking price is higher than the market price. Do your homework first. It's frustrating to pay for a valuation and then find you can't buy that house because it is priced higher than the valuer believes it is worth.



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How much deposit do you need? Well even if you have some money gifted to you, you should have saved 5% yourself.

So, the rules are: Keep your debt repayments under 1/3 of your income (including the new loan). Make sure you can afford it (all expenses, including the new loan, add up to less than your net income), and: Save at least 5% deposit and scrape up the balance deposit your bank wants by selling something, gift from parents (not borrowing) and fix up any unpaid accounts.

All these steps will give you a terrific chance of getting that home loan.

Graham Couper-Smith

co-author of 'Recession Proof Yourself'

Recession Proof Yourself is available on our website at:

<http://www.manageyourfinance.com.au>

EXPERT
Ezine
@articles
AUTHOR