How to increase your borrowing capacity

With the RBA’s ongoing cash rate hikes, mortgage rates are also continuing to climb.

The resultant increase in servicing costs has led many new borrowers to find they might not be able to borrow as much as they previously could.

Fortunately, there are some steps you can take to boost your borrowing capacity.

Pay down existing debt

If you’ve got several different loans, it’s likely they are weighing heavily on your borrowing capacity. A debt by itself means you have money going out every month reducing your overall income.

The obvious solution is to pay down your debts as much as you can before applying for a home loan. However, you can also look to consolidate those debts by rolling some of the higher-interest debts into a new loan with a lower interest rate. This should free up some money that you can use to pay off those debts faster, or use to service a new home loan.

Reduce your credit card limit

When you have a credit card, even if you don't use it, your borrowing capacity will be reduced. Banks assess your credit card limit as if it is maxed out, so if you aren't using a certain card or it comes with a very high limit, it may be doing you more harm than good.

If you're really struggling with borrowing capacity, it could be a good idea to get rid of the credit card altogether – or at the very least reduce its limit.

Apply for a joint loan

If you're on a single income, it can be difficult to afford the high price of homes these days. If you're looking to invest or buy a home to live in, by applying with your spouse you are likely able to borrow more.

If you live together, many of your expenses will be shared and your higher income will mean you should be able to borrow more.

Opt for a positive cash flow

When a lender looks at your application for a loan, they will also include the potential income from the property if you are trying to buy an investment.

If you need to boost your borrowing capacity, it might be worth looking at a positively geared property. That means a property where the rental income is greater than the cost of servicing the debt and the annual expenses.

That means you will only be assessed on your current income and expenses. You likely won't have to contribute any funds towards the ongoing costs of holding and maintaining the property.

This is general information only and is subject to change anytime. Your complete financial situation will need to be assessed before acceptance of any proposal or product.