



Should you have decided homeownership is the best solution for you and your family's housing needs, it may take some time before you can apply and be approved for a loan. Banks and other lenders have a series of requirements that you must meet before you can have an application for finance approved. Some of these requirements are set out below.

Steady income

Before your home loan is approved, lenders like to know that you will be able to afford your loan repayments over the period (term) of the loan. Working consistently for at least the last two years is generally considered to be steady employment by lenders. Most lenders like you to have been with your current employer for more than 12 months. Casual employees and self-employed people need to give evidence of a steady income over a period of years. You should start collecting evidence of your income, such as tax statements or pay slips. If you have only been employed for a short time, you may need to wait to apply for a home loan until you can show that you have a steady income and stable work history.



If you are not working but planning on using an alternative income, such as bank interest or a pension, to meet your loan repayments, you will need to be able to show evidence of this income to your lender.

You may also have to demonstrate a savings pattern over a period of six to 12 months.

Good credit profile

When you apply for a loan, a lender will order a credit report on you from a credit bureau. Credit bureaus keep records of people's debts and how regularly they are repaid. A good credit rating means you have a history of paying your bills on time. Late payments or going over your credit card limit once doesn't necessarily mean you will have a bad credit rating. However, should you show a pattern of not paying accounts, it will affect your credit rating. If you have never borrowed money from a financial institution or had a credit card, you can still establish a credit history by documenting your regular rent payments to current or previous landlords and your regular payments for gas, electricity, telephone services, etc.

Existing debts

Any loans, such as a personal loan or car loan, and debts, such as credit card accounts and store cards, that you currently have may reduce the amount of money you will be able to borrow. You may have to clear or reduce these before lenders will consider your home loan application.

Savings for deposit and up-front costs

Most households find saving for a deposit takes time and is one of the biggest factors in reaching their homeownership goals. The amount of deposit needed to buy a home is usually 5% to 10% of the purchase price of the property (\$5,000 to \$10,000 on a property valued at \$100,000).

Saving a larger deposit will increase the possibility of having your home loan approved. Saving a 20% deposit and borrowing less than 80% of the purchase price of a property may mean you will not have to pay mortgage insurance. This can save you around \$1,000 to \$2,000. Of course, the larger your deposit, the smaller the amount you will have to borrow and the less interest you will have to pay. A slightly bigger deposit may save you thousands of dollars in interest over the term of your loan.

As well as a deposit, you will need savings for the other up-front costs of homeownership such as application fees, valuation charges, solicitor's (conveyancing) fees, government fees, building inspections and pest inspections. This could add up to around \$3,000 on top of your deposit (for a loan of approximately \$100,000).

Disposable income

Making sure you have enough disposable income after loan repayments and the costs of living is very important. A home loan lender will be able to give you an estimate of how much you would be able to borrow and expected repayments based on current interest rates. From this, you will be able to judge whether you can afford to buy the type of house you want in the area you want to live and still have enough income left over for other expenses.

If you are not happy with the loan amount you qualify for and the disposable income it will leave you, you may need to look for a smaller 'starter' house, a house in a different area, or continue to rent. You may want to wait until your income increases or, if your debts are too high, you may aim to pay them off quickly.

Expectations and responsibility

Being prepared for homeownership means understanding the risks and responsibilities of buying property, being committed to a long term loan and meeting the additional costs of homeownership (such as building maintenance, insurance, council rates, pest control, etc).

As a home owner you are responsible for maintenance and repairs. Not maintaining your home could decrease its value. Minor maintenance can become expensive repairs if not checked and fixed regularly. As a home owner, you should budget carefully and put aside savings regularly for the costs of repairs and maintenance.

Properties can increase and decrease in value over time in response to economic and market conditions. This is one of the financial risks of homeownership. In fact, you could find that your property decreases in value and leaves you owing a larger amount under the mortgage than the property is worth. This is why having a larger deposit is beneficial. Your home may decrease in value simply because of changes in your neighbourhood or community. These are circumstances outside your control but may affect the value of your property.

Personal challenges such as divorce, illness, death, unemployment or bankruptcy could leave you unable to meet your monthly repayments. If this happens, your lender can repossess the property and you will have to move out. If you are unable to make a loan repayment, you should immediately contact your lender to let them know of your circumstances and discuss alternatives.

Interest rates vary in line with economic conditions. Increased interest rates mean an increase in your repayments, unless you have a fixed rate loan. It is important that you are able to meet the cost of any higher repayments. If you are concerned about the prospect of increasing interest rates you may like to consider a fixed rate home loan (see the fact sheet 'Interest Rate Alternatives').

Homeownership usually means a lifestyle change. The higher cost of homeownership over renting is likely to mean that you will need to make some sacrifices to become a home owner. Remember, a mortgage is a long-term commitment of usually 20 to 30 years. It is important that you understand and commit to the responsibilities of homeownership before you sign a contract.

The right time for my family

Different generations and people with different lifestyles have different housing needs. Some people prefer to rent because they have plans to travel. Some people's work requires a lot of travel or regular relocations that may not be possible as a home owner. Think about the reasons you are looking to buy your own home and consider whether it is the right time for you and your family.

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Free interpreter services are available to people who have difficulty speaking or understanding English. Telephone the Department of Housing's toll free Loan Information Hotline on 1300 654 322.