**RateCity**

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**Ability to repay test is critical to securing a mortgage**

As part of the ongoing fallout from the Global Financial Crisis, the banks, building societies and credit unions have progressively tightened their lending criteria much to the vexation of aspiring homeowners.

The facts are that in Australia, mortgage lenders must operate under strict regulatory guidelines designed to curb irresponsible lending and this rigour is carried through to their dealings with borrowers.

Smartline Personal Mortgage Advisers, founder and CEO, Chris Acret says one of the most successful aspects of these guidelines has been the ‘Ability to Repay Test’, which is commonly referred to as ‘serviceability’.

“Put simply, financial institutions must demonstrate they are satisfied that borrowers can afford to repay their debt,” Acret explains.  “If [lenders](http://www.smartline.com.au/about-smartline/banks-and-lenders.html) don’t do this, they risk their right to foreclose on a client in the event of default.

“Lenders interpret the Ability to Repay Test in different ways and contrary to popular opinion, the loan amounts lenders deem to be responsible also differ greatly.”

The good news is there are a number of strategies, which can help borrowers meet serviceability guidelines, including maintaining current financial information, reducing credit card dependence and consolidating debts such as personal loans.

**Update your financial information**

Outdated or insufficient financial information is a common reason loan applications get knocked on the head by lenders. Likewise, falling behind with tax returns is another warning bell for lenders.

Leading financial commentator Paul Clitheroe suggests in best selling financial tome ‘Making Money’ that aspiring borrowers should obtain a copy of a credit report a few months before approaching lenders for a mortgage. A credit report offers information about your credit history and serves as a reference point for financial institutions when they consider a mortgage application.

“It gives you a chance to clean up your (financial) record before you apply for finance,” advises Clitheroe.

**Ditch excess credit cards**

If you have unused credit cards or cards with limits, which exceed your credit needs, then it makes sense to either cancel the limits or reduce them to a manageable level.

The advice from Smartline is that when assessing your ability to repay a mortgage, lenders assume that your credit card will be fully drawn up to its limit.

**Consolidate your liabilities and debt**

Smartline advises that unsecured debts such as personal loans and credit cards come with short repayment terms and expensive monthly repayments. High unsecured loan repayments can impact, in the eyes of a lender, your ability to service a mortgage.

**Shop around**

Shopping around for a mortgage with a cheaper interest rate is still one of the best ways to help you meet the ‘Ability to Repay Test’. RateCity.com.au is the perfect tool to use when considering a home loan. With more than 2,000 home loans on the one site, Rate City makes it easy to shop, compare and apply for a mortgage.

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