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Top five reasons home loans rejected

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WANT to buy a house before prices take off again, but found yourself having problems getting a loan?

Online lender MyRate.com.au has revealed the top five reasons would-be borrowers have their applications rejected.

MyRate spokesman Kevin Sherman said that with lending criteria becoming a lot stricter in the past 12 months, people could benefit from understanding how these changes would affect their chances of securing a home loan.

"The recent turmoil brought about by the GFC coupled with deflating property prices and an increasing unemployment rate has seen all lenders change their risk appetite. As such, it is now a lot tougher to qualify for a home loan," he said.

Top 5 reasons would-be borrowers have their loan applications rejected:

1. The borrower cannot demonstrate they have saved a genuine 5 per cent deposit

“These days I’d go so far as to say it’s impossible to get a loan without at least a 5 per cent deposit” said Sherman. “This is a significant change, as a few years ago consumers didn’t even need a deposit for some loans.”

2. The borrower has servicing issues – for example, they do not have a steady income or are still on work probation

“This is a concerning factor for borrowers with a new job,” said Sherman. “The problem lies in that many employers are now extending probationary work periods from the usual three months to six months. Their reasoning: there is so much quality talent looking for jobs that employers are ‘playing it safe’ just in case an employee doesn’t work out or in case the business needs to lay staff off. This means that people are having to wait longer to secure a loan.”

3. The borrower cannot supply enough funds to cover at least a 10 per cent deposit for new purchases, or 15 per cent of the property value for refinances

"Deflating property prices in the current climate and a softer estimate for future growth means that lenders now want their borrowers to put up more of the money themselves in order to reduce the risk to the lender. It isn't uncommon for lenders to now demand a 15 per cent deposit in some situations," explains Sherman.

4. There are issues with the property that they wish to buy

Sherman said: "There are certain types of properties that lenders might now consider 'unsuitable'. This could be because the apartment you want to buy is in a giant complex of similar flats which makes the lender concerned it will be hard to sell should they need to. A property may be a little run down or be valued at a lower price than expected, which may affect the loan amount the lender will agree to."

5. There are issues with the borrower credit file

"It could be that you have been shopping around for finance and, as such, your credit file is showing too much activity – something which is viewed by lenders as a negative as they may think you were denied finance by various providers. It could be an unpaid Telco bill. Basically, anything that may raise suspicion will be closely scrutinised and assessed for risk."

"The bottom line is that lending policies have tightened significantly. Banks and lenders are more cautious than ever before, with most looking for a better quality borrower. The best thing you can do for yourself is to be organised and over-prepared – you'll come across as a great candidate if you can demonstrate your ability to repay to the best of your ability."

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