HomeLoan experts

WHY **BORROWING POWER** MATTERS **NOW** MORE THAN EVER

If you're looking to buy your first home, invest in property, or refinance your mortgage, you may have noticed that your borrowing power isn't what it used to be.

Since 2020, the Reserve Bank of Australia (RBA) has made multiple cash-rate adjustments, and these changes have greatly affected how much lenders are willing to offer borrowers.

The result? Many Australians can now borrow substantially less than they could a few years ago.

On average, borrowing power has dropped by about **$153,000** since 2020.

In this guide, we'll break down:

- How interest-rate changes affect your borrowing power
- What this means for first-home buyers, investors and refinancers
- Smart strategies to maximise your borrowing potential

Borrowing Power in 2020 vs. 2025: What's Changed?

If you earn **$100K annually** with a **$10K credit-card limit**, your borrowing power has dropped significantly.

On average, borrowers can access $153K less than in 2020 – a **23% decline** due to rising interest rates and stricter lending policies.

Impact Category	Reduction In Borrowing Power
Severe Drop	More than **30% decrease** (Borrowing power down more than $200K)
Significant Drop	**25-30% decrease** (Borrowing power down $175K-$200K)
Moderate Drop	**15-25% decrease** (Borrowing power down $100K-$175K)
Minimal Drop	**Less than 10% decrease** (Borrowing power down $50K or less)

With most lenders, borrowers today qualify for far smaller loans.

Lender	Borrowing Power		Change In Loan Amount	% Change in Borrowing Power
	Nov 2020	Mar 2025		
Bank	$700,000	$503,000	-$197,000	-28.14%
Major Bank	$700,000	$506,000	-$194,000	-27.71%
Digital Bank	$735,000	$500,000	-$235,000	-31.97%
Major Bank	$682,000	$503,000	-$179,000	-26.25%
Bank	$647,000	$503,000	-$144,000	-22.26%
Non-Bank Lender	$733,000	$559,000	-$174,000	-23.74%
Customer-Owned	$590,000	$460,000	-$130,000	-22.03%
Bank	$615,000	$508,000	-$107,000	-17.40%
Non-Bank Lender	$679,000	$498,000	-$181,000	-26.66%
Specialist Lender	$608,000	$553,000	-$55,000	-9.05%
Bank	$665,000	$506,000	-$159,000	-23.91%
Bank	$699,000	$505,000	-$194,000	-27.75%
Bank	$647,000	$499,000	-$148,000	-22.87%
Major Bank	$660,000	$502,000	-$158,000	-23.94%
Customer-Owned	$659,000	$507,000	-$152,000	-23.07%
Specialist Lender	$505,000	$460,000	-$45,000	-8.91%
Non-Bank Lender	$680,000	$542,000	-$138,000	-20.29%
Bank	$693,000	$503,000	-$190,000	-27.42%

Lender	Borrowing Power		Change In Loan Amount	% Change in Borrowing Power
	Nov 2020	Mar 2025		
Bank	$695,000	$502,000	-$193,000	-27.77%
Customer-Owned	$687,000	$505,000	-$182,000	-26.49%
Major Bank	$698,000	$504,000	-$194,000	-27.79%
Digital Bank	$650,000	$507,000	-$143,000	-22.00%
Bank	$520,000	$487,000	-$33,000	-6.35%
Average			**-$153,261**	**-22.77%**

What Was Lending Like in 2020?

Record-Low Interest Rates

- The **RBA cash rate was 0.10%** (historically the lowest).
- Loans were **cheaper**, so banks approved **higher loan amounts**.

Easier Loan Assessments

- With **record-low interest rates**, buyers had greater borrowing capacity
- Lenders **accepted JobKeeper and JobSeeker** payments as income

Government Homebuyer Incentives

- **First Home Loan Deposit Scheme**: Buy with **5% deposit, no LMI**.
- **HomeBuilder Grant**: $25K for new builds and renovations.
- **Stamp-Duty Concessions** made property more affordable.

Lower Inflation And Cost of Living

- Inflation was **only 0.9%**, so borrowing capacity calculations were higher.
- Banks assumed **more disposable income**, boosting borrowing power.

Relaxed Lending Policies

- By 2020, banks had **eased restrictions** after the **Banking Royal Commission (2017-2019)**.
- This led to **higher borrowing limits** for many homebuyers.

The Shift: 2025 vs. 2020

- **Interest rates are much higher** (RBA cash rate over **4%**).
- **Inflation and living costs have surged**, reducing affordability.
- **Some lender policies have become more flexible**, but overall, borrowing power is lower.

- Lenders now use digital offers and ID verification for faster approvals.

How An RBA Cash Rate Cut Impacts Borrowing Power

The Reserve Bank of Australia (RBA) cash rate is the interest rate set by the RBA that influences the cost of borrowing money in Australia. When the RBA cuts its cash rate, it creates a ripple effect throughout the economy, particularly in the housing and mortgage markets.

Let's break it down:

1. What Happens When The RBA Cuts The Cash Rate?

When the RBA lowers its cash rate, it reduces the cost of borrowing for banks and financial institutions. This usually leads to:

- **Lower interest rates on home loans**: Banks pass on the savings by reducing variable interest rates for borrowers.
- **Lower mortgage repayments**: Monthly repayments decrease, making home loans more affordable.
- **Increased borrowing power**: Because repayments are lower, lenders can approve larger loan amounts.

Example: *If interest rates drop from, say, 6% to 5.5%, a borrower may be able to borrow thousands more without increasing their repayments.*

2. How A Rate Cut Increases Borrowing Power

Lenders assess borrowing power based on income, expenses, existing debts, and the interest rate. When rates are lower:

- ✅ Repayments become more affordable
- ✅ Lenders allow you to borrow more because your repayment obligations are lower.

Example Impact of Rate Cuts on Borrowing Power:

RBA Rate Cut	Average Increase in Loan Amount	% Increase in Borrowing Power
0.05%	$3,600	0.46%
0.10%	$7,133	0.91%
0.15%	$10,733	1.37%
0.20%	$14,333	1.82%
0.25%	$18,267	2.32%
0.30%	$21,733	2.76%

Key Takeaway: *Even a 0.10% rate cut can increase borrowing power by nearly 1%, and a 0.30% cut could boost loan amounts by over $20,000, on average!*

3. Who Benefits The Most From An RBA Rate Cut?

First-Home Buyers:

- Higher borrowing power makes it easier to enter the market.
- Lower repayments mean homes are more affordable.
- Government incentives (First Home Guarantee, grants) help.

Property Investors:

- Easier to leverage existing equity for new purchases.
- Better cashflow as loan repayments decrease.
- Potential for higher returns if property values rise due to increased demand.

Refinancers:

- Lower interest rates mean better deals when refinancing.
- Opportunity to switch from high-rate loans to cheaper mortgage options.
- Potential to unlock equity for renovations or investments.

4. Will Banks Always Pass On Rate Cuts?

Not necessarily. While a cash rate cut encourages lenders to lower rates, banks don't always pass on the full discount.

- Some lenders cut rates fully, making it easier to borrow.
- Others reduce rates partially, keeping some of the margin.
- Fixed-rate loans won't be affected immediately, although new fixed loans may reflect the new, lower rates.

Tip

If rates drop but your lender doesn't pass on the savings, shopping around or refinancing could help you secure a better deal.

5. What If The RBA Raises Rates Instead?

The opposite effect occurs:

❌ Higher interest rates = Lower borrowing power

❌ Mortgage repayments increase

❌ Home affordability decreases

This is what has been happening since 2020, with many borrowers now eligible for $150,000 less than they were before the RBA's rate hikes.

What Was Lending Like in 2020?

- If you're looking to buy a home, a rate cut could mean you can borrow more and secure a better deal.
- Investors may find it easier to expand their property portfolios with improved borrowing conditions.
- Refinancers can lock in lower repayments, saving thousands over the life of their loans.

Why This Matters for You

Step 1: Get Pre-Approved Before Rates Change

Lock in your borrowing power now before further rate fluctuations affect loan eligibility.

Step 2: Compare Lenders – Not All Banks Offer The Same Borrowing Power

Some lenders allow higher borrowing power than others. Shopping around can help you borrow more.

Step 3: Speak To A Mortgage Broker

Brokers can help maximise your loan approval by accessing exclusive lender deals.

Step 4: Consider Fixed vs. Variable Loans

- **Fixed Loans:** Protect you from future rate increases, but you won't benefit if rates drop.
- **Variable Loans**: Flexible and can decrease your repayments if rates drop.
- **Split Loans**: The best of both worlds – stability plus flexibility.

How to Get the Most Out of Your Borrowing Power (Even If Rates Stay The Same)

If you're serious about buying or refinancing, **there are steps you can take right now** to improve your borrowing power.

1. Get a Mortgage Broker on Your Side

Different lenders calculate borrowing power differently. A broker can match you with lenders that offer the **highest possible loan amount** based on your financial situation.

2. Reduce Your Liabilities

- Lower your credit-card limits (a $10K limit could reduce borrowing power by **$50K-$70K**).
- Pay down personal loans. Every $100 in repayments reduces how much you can borrow.
- Improve your credit score for better loan rates.

3. Choose The Right Loan Structure

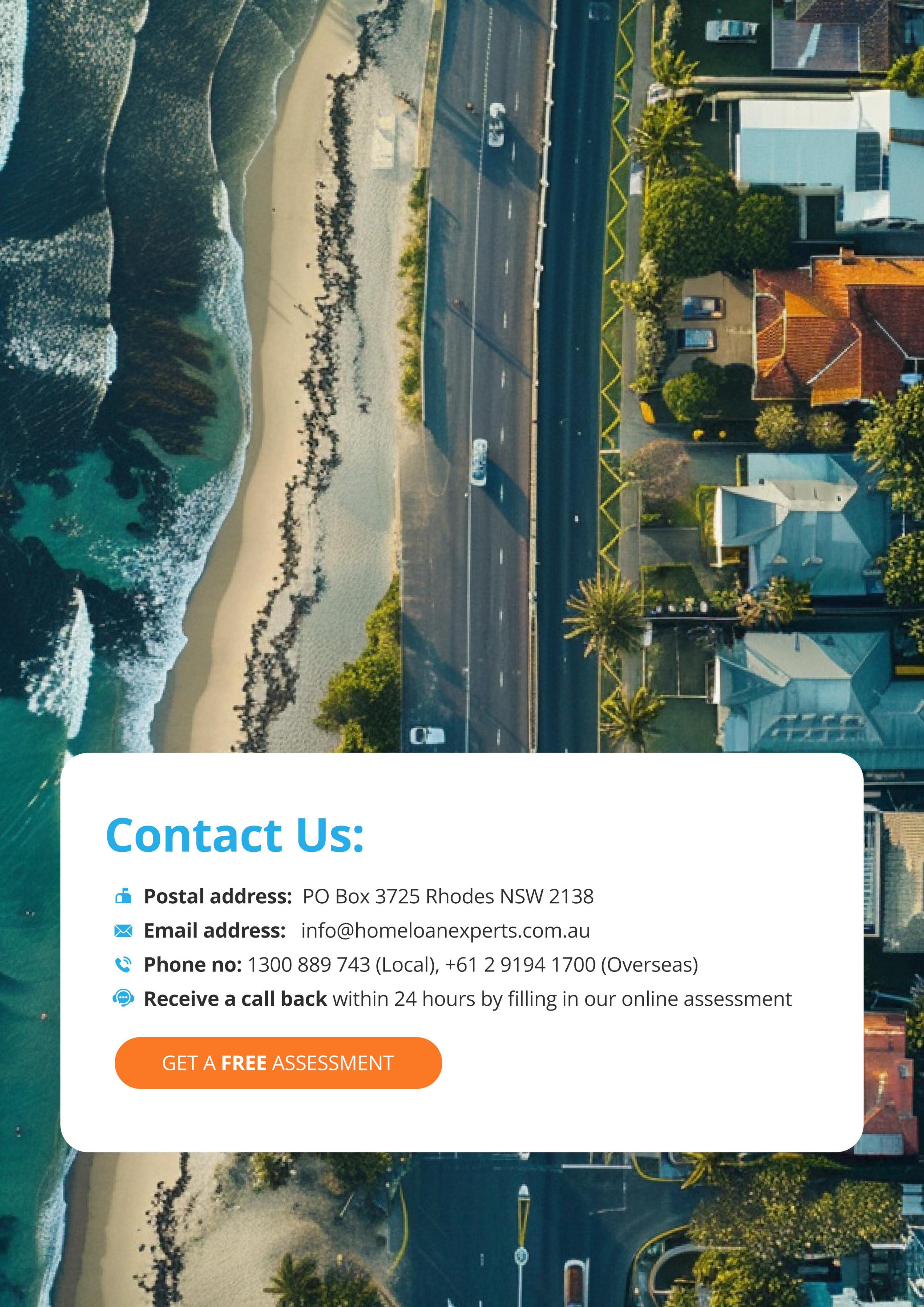
- Consider **extending the loan term** (for example, from 25 to 30 years), to reduce repayments and increase borrowing power.
- Use an **interest-only repayment period** to free up cashflow.
- If possible, **add a guarantor** to boost loan eligibility.

4. Know Which Lenders Offer More

Some lenders offer higher borrowing capacity for:

- Doctors, teachers and essential workers.
- Self-employed borrowers using alternative income verification.
- Investors who can leverage rental income more effectively.

Small tweaks to your financial situation can add ***tens of thousands*** *to your borrowing capacity.*



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