HomeLoan experts

10 Mistakes That Can Get Your Loan Declined.

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No.1 Applying with the wrong lender

Each bank has its own opinion on what types of loans and which customers are high or low risk. For example, some lenders will not lend to someone who has just started a new job, while others have no problem at all lending to someone who has been in their job for only one day.

If you know there is something about your situation that may be a problem, please call us on 1300 889 743 or enquire online and we can help you apply with a lender that may accept your situation.

If one lender declines your application, don't just apply with another lender; getting your loan declined again and again by different lenders will ruin your credit score for future loans.

No.2 Not including all of your debts in your application

You **MUST** include all of your debts in your loan application. Lenders will see all the loans you have applied for in the last five years in your credit file. They can call those lenders to check if you still have a debt with them. The most common debts people forget to include are credit cards or store cards that they no longer use.

In most cases, lenders will decline your loan if they find a debt you did not tell them about. Some lenders also require you to declare expenses such as childcare costs, gym memberships and insurance.

No.3 Not understanding your credit score

Major lenders assess loans using a computer-generated score that is based on almost every aspect of your situation: the industry you work in, where you live, your asset position, your credit history, whether you can afford the loan and more. Every lender uses a different credit scoring system to evaluate the potential risk of lending money to you. All of the factors that determine this score may not be obvious. Many people apply for a loan only to be told no because of their credit score, even though they have never missed a payment on their debts and have a great job.

Your credit score can be lowered by simple things, such as how long you have been at your current address or how many loans you have applied for in the last year. You can use our credit score calculator to get an idea of what lenders will think of your situation before you apply.

If you have a blemish on your credit history, we recommend that you request a free copy of your credit file to find out exactly where you stand. Often we can help you apply with a specialist lender that doesn't use credit scoring.

No.4 No genuine savings

Banks have learnt that people who can save a 5% deposit are a much lower risk than those who can't. Consequently, almost all lenders have policies in place to decline your loan automatically if you do not have a deposit that you have saved yourself.

Don't worry. Some lenders can still help if you didn't save your deposit yourself. You can find out more about genuine savings on our website.

Learn more

No.5 Sending your documents to the lender in bits and pieces

The loan processing teams in banks work more like factories than an office. Each loan goes through specific steps and procedures, and these steps are generally completed in a particular order.

If you give a lender only half of your documents, they can’t do many of the steps or may have to do them again when you provide the remaining documents. Think of it like a factory trying to build a car without having the engine or wheels.

Banks are pedantic about the documents you give them to prove your income, assets and liabilities. They will put your loan on hold if they don’t have everything they need. Some banks practise a policy of declining incomplete applications, as it’s more cost-effective for them than waiting.

As your mortgage broker, we will also have difficulty choosing the right lender for you with any certainty until we have everything we need. So please send all documentation to us in one go.

No.6 Overcomplicating your application

Banks use inflexible computer systems to process loan applications. Unfortunately, they often cannot handle unusual requests.
Try to keep it simple when applying for your loan. Loans that are 'too hard' often get declined because the credit manager simply doesn't understand what is going on and can't be bothered doing the extra work to get you what you want.

Try to get your application right the first time. Changing your mind about the loan amount, loan type and other details means that the bank has to start its processing from the beginning.

It is easy for us to help someone get a loan if they have one or two issues that need resolving. However, when they have several issues, the list of lenders that can help rapidly shrinks. So if you are trying to buy a serviced apartment in a family trust when you are casually employed with a default on your credit file and with no genuine savings, then there simply aren't any lenders that can help.

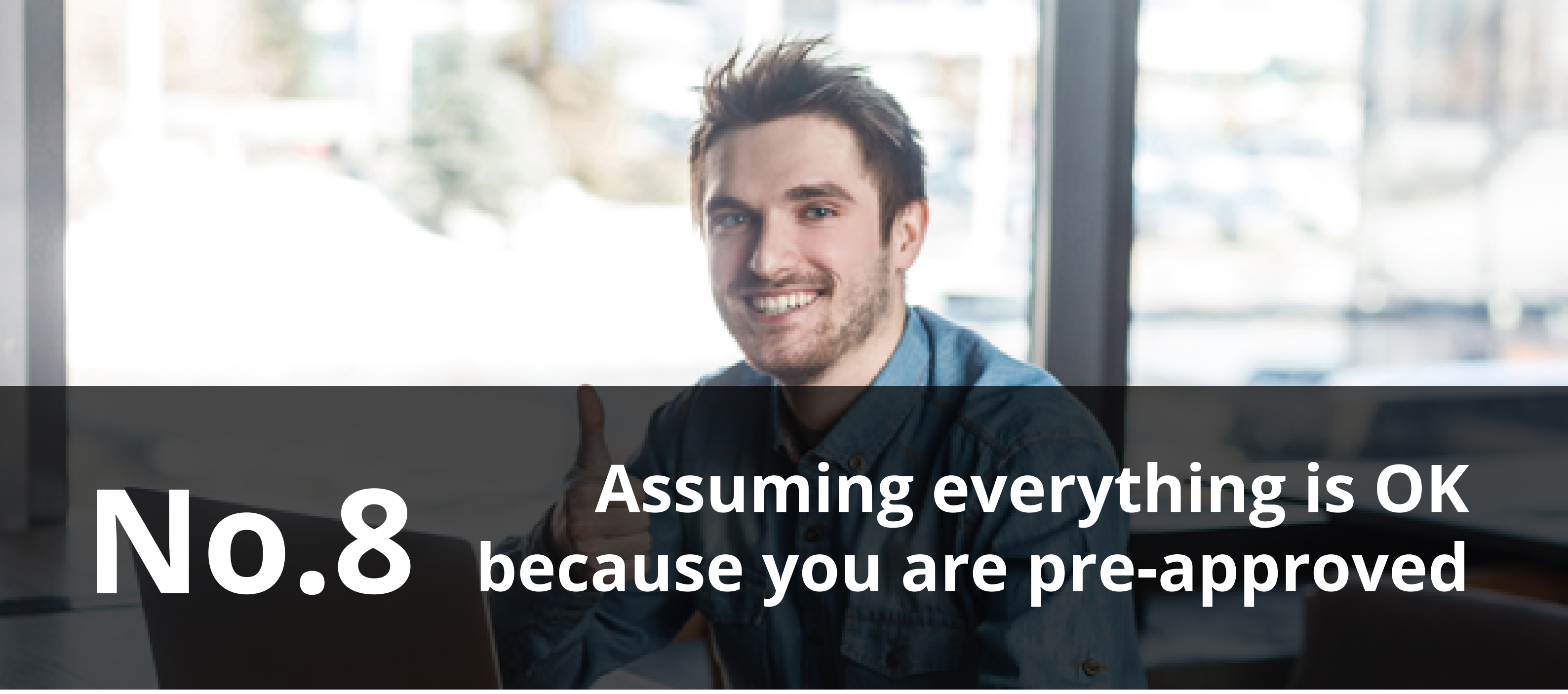
Keep it simple and your loan has a much better chance of being approved. Check out our article on combining credit issues for more information.

No.7 Underestimating the pessimism of bank valuers

If you are buying a property, then it is likely that the bank valuation will match the purchase price. It is usually only new buildings that sometimes get valued conservatively because people pay a premium for a new property.

However, if you are refinancing a property you already own, there is roughly a 70% chance that the valuation will come in below your expected value. As a result, many people have their loan declined or end up paying expensive Lenders Mortgage Insurance (LMI).

Did you know that some lenders allow us, as your mortgage broker, to arrange a valuation before you apply for the loan? This means we can order valuations from two or more lenders and, if necessary, apply with the lender that has the highest valuation.



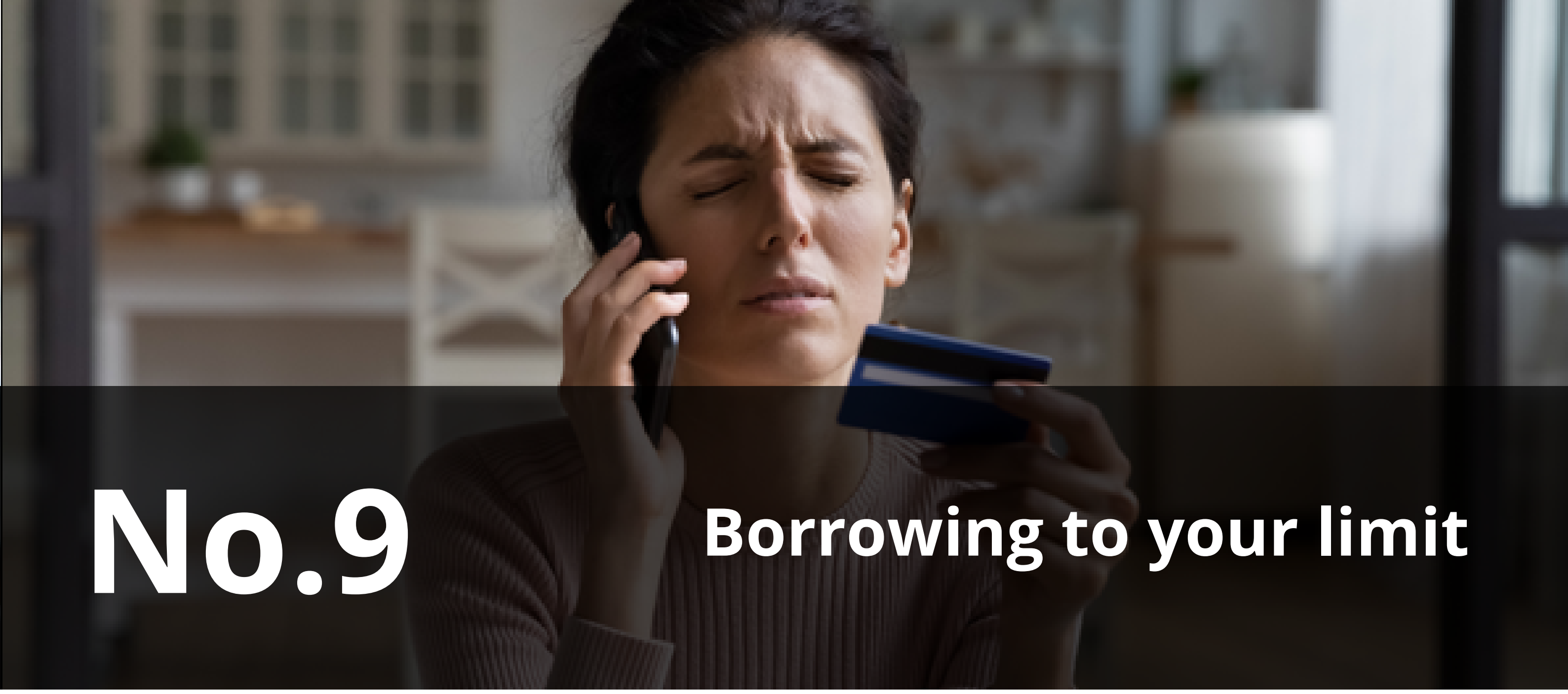
No.8 Assuming everything is OK because you are pre-approved

Many people with pre-approvals in place find a property they wish to buy and are surprised when their bank declines their loan.
This is a particularly large problem if that person has won an auction or is committed to buying a property. So why might your loan not reach formal approval?

- Rates may have increased, which could reduce your borrowing power.
- The lender may have changed its lending policy.
- Your pre-approval may have expired. (You can extend your pre-approval, but you'll need to provide the bank with two recent payslips and any information regarding changes in assets and liabilities.)
- The property you buy may not be acceptable to the lender.

Trying to buy a property that is unacceptable to the lender is something that catches out many people. Before making an offer on a property, we always ask our pre-approved customers to check with us to make sure their lender accepts the type of property they are buying.

Please read our list of unacceptable and restricted property types before you buy a property. Some common types of property are particularly difficult to finance, including units that are smaller than 50 square metres, inner-city apartments, homes in small country towns, and properties that have a partially commercial use.



No.9 Borrowing to your limit

First-home buyers are notorious for attempting to borrow the maximum amount a lender allows. But even though a lender's serviceability calculator states the maximum you can borrow, that doesn't mean it will approve your loan for that amount.

Lenders use a debt-to-income ratio (DTI) to measure your ability to make repayments comfortably without putting you in financial hardship.

Your DTI ratio is your total debts divided by gross income and a DTI higher than six times a borrower's income can be considered a higher risk.

Borrowing the maximum possible is available only to people with an excellent credit score. For everyone else, the lender will likely see it as high risk and decline the loan or reduce it to a level they believe you can comfortably afford. It is much easier to get approval if you borrow 80% or less of the property value and can easily afford the amount you are borrowing. Use our borrowing power calculator to work out how much you can afford.

No.10 Not making your payments on time

As part of the approval process, banks will check to see how you have managed your existing debts, such as personal loans, credit cards, home loans and rent payments. They know that if you have not made payments on time, there is a high chance that you will default on your loan. In addition to this, they consider people who have overdrawn their cheque account to be high risk, too.

Are you worried about your loan application?
Contact us on 1300 889 743 or enquire online and our mortgage brokers will help you navigate the minefield and get approved!

DISCLAIMER

This information is not to be taken as financial advice.
The information is of a general nature only and does not take into account your individual objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice.
We recommend that you obtain your own independent professional advice before making any decision in relation to your particular requirements or circumstances.

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Receive a call back within 24 hours by filling in our online assessment

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