



How to Impress the Lender And Negotiate The Perfect Loan

Special Report #1

**Your Income and How
it Influences How Much
You can Borrow**

by

Jane Simpson

<http://www.PropertyFinanceUncut.com>

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Forward

Welcome to **Property Finance Uncut**.

Our goal is simple:

"to help you understand the loan approval process BEFORE you approach your lending institution"

This will give you the best chance of getting your loan approved.

In this **Special Report #1**, we discuss how your income and the manner in which it is earned, influences how much you can borrow.

Hope you enjoy,

Jane Simpson

Principal – Property Finance Uncut

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Introduction

- Hoping vs Knowing

The way most people approach the task of obtaining a loan for a property is to find a property, become emotionally attached to the property, and then hope that someone will approve a loan for it.

Many people sign up for a home and then apply for the loan to finance it. In many cases, borrowers are learning about loans and lenders through this process without experience in these matters.

This is not the ideal way to put your best case forward for something as important as a home loan - be it for a property to live in or to invest in.

This report has been written to give you a better chance of **knowing** that you will be able to obtain a home loan for your chosen property rather than **hoping** that you will obtain a loan for it.

This report focuses on your **income**, the **way it is earned** and the impact this has on your ability to secure a home loan.

Loan Calculators – what are they telling us?

Many of us believe we know whether or not we have sufficient monthly income available to afford a home loan. We also have a reasonable idea of how big a loan we are comfortable signing up for.

There are plenty of publicly available loan calculators to help us assess what we can afford and what we are comfortable with. These can be found on many lender, estate agent and property search Internet sites.

However, before we go too much further we need to understand what these calculators are telling us.

Recently we completed a simple test where we entered the same situation into a number of publicly available calculators from a number of different organisations.

The situation entered into the calculators was:

- Partners are the joint applicants
- One partner earns \$45,000 and the other \$35,000 gross income per annum
- There are 2 children as dependents
- The loan is to be a fully featured standard variable interest rate principal and interest loan
- The repayments are over a 30 year loan term
- The repayments are monthly
- There are no personal loans, car loans, credit cards, store cards or other financial commitments of any type

We performed the calculation which showed the maximum amount that could be borrowed on this basis. We also calculated the monthly repayment amount necessary if this amount was borrowed.

The amount that could be borrowed according to the calculators varied from \$323,250 to \$400,845.

The repayment amounts quoted for these loans ranged from \$2,609 per month to \$3,225 per month - both for 30 years.

This meant that the amount of money remaining from take home income after these payments were made ranged from \$2,836 per month down to \$2,217 per month. These are the amounts remaining to meet routine living expenses such as food, clothing, schooling, entertainment, car expenses, insurances, gas, electricity, water, telephones and hobbies.

The difference in the amounts different lenders are prepared to lend for the same situation is in part due to their own lending practices.

The different results from the calculators would also have been influenced by the different information required to be input into each of them - with some requiring much more information than others.

These results highlight that it is a subjective decision as to how much take home income one needs to meet home loan repayments and how much should be

retained for lifestyle and unexpected expenses such as increased interest rates and petrol prices.

The results also show the borrowing potential in the specific situation where there are no other financial commitments.

The impact of other financial commitments on how much can be borrowed will be addressed in a later report.

Special Note: Use of these calculators does not guarantee that the lender will approve a loan of this size when they fully consider a loan application.

They are sales tools provided by lenders for the purpose of enticing people to apply for a loan with that particular organization.

The purpose of this report is to provide you with some background knowledge about matters that lenders consider when assessing a loan application.

This will explain why a loan may or may not be approved and why the approval amount may vary from the amount indicated by an online calculator.

Income Considerations

In regard to income, lenders have their own ways of assessing incomes and peoples abilities to repay home loans.

A lender's assessment of your income and in particular how it is earned has a significant influence on the size of a loan they are prepared to offer.

They consider whether income is earned in one or more categories such as those listed here:

- Base PAYG (Pay as You Go) Income
- Rental Income
- Business income
- Permanent employment income
- Probationary period permanent employment income
- Casual employment income
- Part time permanent employment income
- Part time casual employment income

- Multiple Permanent Part Time employment income
- Multiple Casual Part Time employment income
- Overtime income
- Commission income
- Shift or penalty allowances
- Other employment related allowances
- Social Security family payments
- Social Security pensions
- Maintenance
- Bonuses
- Dividends
- Interest
- Unemployment Benefits
- Superannuation Pensions or Annuities

Lenders do not necessarily use all the income in each of these categories when calculating how much income one has available to repay a loan.

What lenders are looking for is the reliability, consistency and continuity of the sources of income.

They generally believe income earned as base PAYG income on the basis of permanent employment is a reliable and consistent form of income. They are also most comfortable when this income has been earned consistently from the same employer for at least two years. If one has changed employer, lenders prefer that one is either performing the same type of work for the new employer or that one is remaining in the same industry with the new employer.

Lenders are not comfortable with change, even if the change has brought about a sudden increase in income. They prefer to lend to people who have completed probationary periods. If there is a sudden increase in income, they are more influenced by the previous level of income where it can be demonstrated it was earned reliably over a period of time. They will take into account the new increased level of income when it has been demonstrated that this has been reliably earned over a period of time.

Income from social security is also viewed favourably given that it is being paid by a reliable government organisation. In respect to the family allowance, lenders consider the age of dependent children. If they are young then they know this allowance can be relied upon for a reasonable period. If children are older, then lenders may disregard or discount the family allowance as a source of income.

Any form of permanent employment, either full time or part time is favourably considered. Any legally enforceable arrangements such as maintenance payments are also favourably considered.

For the sources of income that lenders are comfortable with they will take into account all income earned from those sources when calculating the size of loan they are prepared to provide.

Because lenders are looking for reliability and consistency, there are some sources of income from which they may only use a fraction of the income earned when assessing the amount of income available for repaying a loan.

For instance, many lenders will only consider 80% of rental income is available for repaying a loan because they believe that there will be times when a rental property is vacant and therefore not attracting income.

Also lenders perceive that income earned from overtime, commissions, bonuses, allowances and dividends can vary and can't be necessarily relied upon. Their approach may be to average what has been earned from these categories over the previous couple of years.

Lenders also perceive that income earned from casual employment is not as reliable as that earned from permanent employment. They may therefore only take into account a smaller amount than is actually earned when calculating the ability one has to make repayments from income earned on a casual employment basis. This applies to both full time and part time casual employment.

Business income earned by self employed people is also perceived by lenders as income which can vary significantly and be influenced by many factors. Lenders generally take two approaches to business income. They either require at least two years of full financial reports including profit and loss, balance sheet and personal tax returns or will request that a declaration is signed stating that the applicant is in a position to repay the loan.

If full financial records are provided, lenders will generally provide loans under their standard terms and conditions. If a declaration is used, lenders will provide a "Lo Doc" (low documentation) loan where the terms and conditions will be different. There are other requirements which need to be met for lo-doc loans which will be the subject of **a later report**

Other information commonly required from business owners includes:

- Length of time the business has operated
- Nature of the business
- Details of the current liabilities of the business
- History of current leases
- Details of any current overdraft or other loan facilities
- Details of current expenses

The lender needs to know in which of these categories your income is earned and then the lender decides how much of your total income can be taken into account to assess your ability to repay the loan.

you need to show the lender payslips and/or other proof of income so they can make the necessary calculations.

Lenders also need to be comfortable that the documents you provide, in support of your income and the category in which it is earned can be validated.

For example, they need to see payslips that are generated by a legitimate computerised payroll system. Pay slips that appear to be produced by standard computer word processing software or are hand written are normally not acceptable.

Lenders will also need to satisfy themselves that letters provided by employers and statements produced by social security agencies are also genuine.

It is best therefore, right at the outset of any discussions with a lender, to explain how you earn your income and how much you earn. You must also present documents in support of this.

The lender can confirm at this early stage whether they are going to be able to provide you with the loan that you require based on your income.

Help the Lender take a Positive View.....

There are various things you can do to help a lender take a positive view of your situation when assessing a loan application.

For example, if you can agree with your employer to move from casual to permanent employment, then after any probationary period has expired, the total amount of the base income may be used for calculating your ability to repay the loan. If this is the case it will have a significant impact on the size of the loan that will be provided.

Also, it is wise to apply when you have as many things going for you as possible. It can be wise to apply after you have had consistent employment with your employer for two years on a relatively consistent base income.

If there is also consistent income from allowances, overtime, commissions or bonuses over this period of time so much the better. If you are promoted or there is another cause for a significant change in income, it can be wise to apply for a loan after there is proof that this new earning level has been sustained over a period of time. It is not wise to apply for a loan during probationary periods after employment changes or promotions.

It is best to have a preliminary discussion with the lender and show them all documentary proof you have regarding your income. The lender can then indicate how much of this income will be used in their calculation of your borrowing capacity. You should also seek and receive the lender's confirmation of how much you can borrow based on their assessment of your situation.

If you follow the guidance above you will put yourself in the best possible position to get the perfect home loan.

Thank you for taking the time to read this report. I hope you have found it useful.

Sincerely,

Jane Simpson,
Principal – Property Finance Uncut

P.S. This is the first in a Series of Property Finance Uncut - Special Reports. Keep an eye on your email or visit www.PropertyFinanceUncut.com for more information.