Here's how you can boost your chances of an approved home loan

It is vital for prospective borrowers to make sure their finances and credit records are all in order before they apply for a loan - and long before they start looking for properties to buy, says Berry Everitt, CEO of the Chas Everitt International property group.

Source: Gallo/Getty

Everitt advises that in order to ensure that their home loan application has the best chance of success, and of possibly even qualifying them for an interest rate concession, buyers need to avoid the following pitfalls:

Too much debt and too little income. In terms of the National Credit Act, lenders such as banks have a legal obligation to ensure that the consumer will not become “over-indebted” by any loan they may grant.

“In other words, if your current debt instalments and other monthly obligations already take up most of your after-tax income, banks may regard it as unlikely that you could comfortably afford to make the repayments on a new home loan and turn you down.”

Not enough cash in the bank. “Lenders are getting more reluctant to grant loans for 100% of the property purchase price, so you should aim to have enough cash available to pay a deposit of at least 10% – either in savings or as equity from the sale of an existing property.”

Lenders will also want to see, he says, that you have enough cash available to cover the transaction costs, such as transfer duty, legal fees and bond registration fees.

Q1 2022 Re/Max report shows subsiding activity in SA housing market
22 Apr 2022

Poor track record of debt repayment. You may never have defaulted on a loan or even missed a car instalment, but if you habitually pay your bills late, that will show up on your credit record and make you look like a bad risk. This applies to credit card and store card instalments, car repayments, your rent and even your cell phone bill, so you need to be meticulous about paying on time for at least two years before you apply for a home loan.

“And, of course, if you do have any debt judgments against you, you will also need to resolve these before applying for a home loan.”

Other people’s problems. Sometimes borrowers can be turned down for things they didn’t do themselves. For example, says Everitt, if you stood surety for someone and they defaulted on their debt repayments, it will also reflect badly on your credit record. Similarly, if you have a clean credit record but your partner or co-applicant does not, your application could be turned down.

Unstable employment history. “Lenders like to see evidence of job and income stability, preferably for at least two to three years before you apply for a home loan – and if you are self-employed, you will need to keep meticulous records of your income, expenditure, assets and liabilities.”

Not enough value in the property. Before a bank approves your home loan application, it will send an evaluator to assess the value of the property which is going to provide the security for your loan. “And if the value does not support the price you have offered or the loan you have requested, the application will most likely be rejected, or you will be required to pay a bigger deposit.”

How SA's youth are reclaiming the inner-city property market
19 Apr 2022

Previous rejections. When a credit application is turned down, that fact is also reflected on your credit history, and other lenders will then be disinclined to approve it unless you first make some changes – like paying off more debt or creating a track record of paying your accounts on time and in full every month.

In addition, he says, it is always a good idea to consult a reputable bond originator before you go house-hunting and establish whether your home loan application is like to be approved – and for how much. That way, you will have the chance to clear up any potential problems, and establish your spending limit so that you can view homes within your price range and make offers to purchase with confidence.