

How to Better Manage Your Finances Before Buying a Home



Buying a home is quite often the largest financial decision most people make, and it's one that needs to be carefully considered.

Prior to going down the path of purchasing a home, it's vital that you get your finances in order to ensure that firstly, you can get the required finance, and secondly, you will be able to manage the repayments going forward.

There are a few things you can do with your personal finances to give yourself the best chance of getting into your dream home.

Start Saving

Being able to manage money is an important life skill, and unfortunately, it is not one that everyone has.

When it comes to purchasing a home, there are a number of benefits to having an effective savings plan. The first is that lenders require you to come up with a 20% deposit. While there are other options at your disposal that can help here, generally speaking, borrowers requiring an LVR (Loan-to-Value Ratio) greater than 80% will be required to pay Lenders Mortgage Insurance (LMI), which can be expensive.

It's also worth remembering that on top of your deposit, you could be required to pay stamp duty (unless exempt) and certainly settlement costs, amongst other expenses. Getting into the habit

of putting money aside every week and working within a budget and towards a goal will also hold you in good stead when the time comes to start making repayments.

Another important consideration is that lenders require you to have a certain amount of money in genuine savings. The ability to show them not only your savings but a track record of managing your money well makes you stand out as a person they will want to lend to.

Improve Your Credit

One of the key factors lenders will look at when assessing a finance application is the applicants' credit score. A credit score is effectively your track record of managing debt. Get into the habit of paying off bills when you receive them and always pay down your credit cards each month. Practices like this will help boost your credit score, and lenders will certainly take note.

Pay Off Debt

If you're looking to take out finance for a new home, one of the things that a lender will certainly want to know about is any outstanding debts. Your payments on these debts will be a factor in calculating your ability to service any future loans.

On top of this, lenders also assess your debt-to-income ratio, and many of the major banks have fixed metrics that they must adhere to.

Paying off debts is typically a good idea, regardless. However, when you're looking to take on more debt, it's important that you don't have things like overdue credit cards and personal loans with high interest rates weighing you down.

Get Pre-Approved

The best way to know just how you are looking financially, in the eyes of a lender, is to get a pre-approval.

By talking to a mortgage broker and starting the process of getting pre-approved, you will get a very clear understanding of where you currently stand. If there are any issues with your credit history or outstanding debts, your mortgage broker will be able to sort them out; or at least start the process of turning things around.

**This is general information only and is subject to change at any given time. Your complete financial situation will need to be assessed before acceptance of any proposal or product.*