Seven strategies to help first home buyers qualify for a loan

In the face of rising rates and tougher lending conditions, this is what you can do to improve your chances of getting your first mortgage.

Kathryn O'Beirne, a 47-year-old school teacher, is under "continual stress" as she waits to find out whether her third attempt at seeking home loan approval will be accepted by lenders.

O'Beirne is typical of an emerging older generation of first home buyers who have had to delay purchasing because it took longer to save for a deposit as house price rises outpaced earnings and the capacity to save, despite the recent price falls.

Playing a waiting game: Kathryn O'Beirne. **Eamon Gallagher**

She faces renewed uncertainty because rising interest rates and tough loan servicing rules imposed by the prudential regulator are making it even harder for her application to be approved.

"I fear this will be my last chance to get a loan to build a family home," says O'Beirne, who has a son, 10, and daughter, 20.

The physical education teacher says she doesn't know whether her deposit will be enough, what her monthly repayment will be or whether she will be refused again if rates continue to rise. "It has just been stressful," she says.

O'Beirne has already purchased a block of land in Diggers Rest, a suburb on the north-west outskirts of Melbourne, and needs the loan to press ahead with the construction of a four-bedroom home.

Housing finance for first home buyers has plunged by more than 40 per cent over the past year, according to CoreLogic, which monitors property markets.

Daniel Senia, managing director of First-Place Building Co, which specialises in new houses for first home buyers, says the recent economic volatility and high costs mean this generation of first home buyers is likely to be older and married with children. In the past 12 months, the number of them with at least one child has increased to more than 60 per cent compared with about 45 per cent last year.

The main barriers

"It is getting harder to get into the market and taking longer to save for a deposit," says Senia. "The main barriers are the uncertainty about finance and interest rates."

Tim Lawless, CoreLogic's research director, says first home buyers as a percentage of owner-occupier lending hit a peak of about 43 per cent in 2008 because of generous government stimulus handouts. It has since halved.

Strategies for bridging the deposit and repayment gap range from increasing income by asking for a pay rise through to finding the lowest rates, says Sally Tindall, research director of RateCity, which monitors rates.

These include:

- Ask for a pay rise. "An awkward 10-minute conversation could boost your borrowing capacity," she says. For example, a 5 per cent pay rise for a first home borrower earning $100,000 with a 10 per cent deposit taking out a 30-year loan could increase borrowing capacity by $34,9 to $560,900. For a couple earning $200,000 in the same lending scenario, the increase could be $69,800.
- Find a lower rate. Banks stress test finance on the rate being applied plus an additional 3 percentage points. "The lower your rate, the more you are likely to be able to borrow," says Tindall. For example, there's nearly a full percentage point difference between the big four owner-occupier loans and one of the lowest from another lender of about 4.69 per cent. A first home buyer earning $100,000 with a 10 per cent deposit opting for a cheaper loan could increase their borrowing capacity by more than $51,300 to $577,300. For a couple earning $200,000, the difference is $103,600.
- Spend less and save more. "The bigger the deposit, the less you'll need to borrow," says Tindall.
- Show the lender how frugal you can be by reducing discretionary spending on luxuries, such as UberEats deliveries and multiple streaming services.
- Close credit cards. "Banks have to assume the possibility of you maxing out on your cards," says Tindall. "That can put a significant handbrake on how much you can borrow."
- Pay off other debts. Do this before applying for a loan. "Buy now, pay later spending can also raise eyebrows so it's best to steer clear of these platforms as well," she says.
- Avoid lenders' mortgage insurance (LMI). Finding a guarantor is one of the most popular ways to avoid paying LMI. Some banks offer LMI waivers for certain borrowers, while the government's Home Guarantee Scheme is another option. "That said, buyers should be careful not to accept a higher rate in the process, otherwise it could end up hampering their borrowing capacity instead of improving it," adds Tindall.