



Get yourself 'mortgage-ready'

Getting approval to buy your first home has become easier – but it's still a complicated process that requires plenty of planning

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For the past five years, first-time buyers have struggled to get mortgage approval. Slowly, that is starting to change.

Bank of Ireland figures show that between October 2012 and February 2014 the bank approved €2 billion in mortgages for first-time buyers, with a further fund of €2 billion available.

With more mortgage credit available, lenders are now encouraging first-time buyers to apply for their first mortgage. But gaining approval is still a complicated and detailed process which requires a lot of planning.

Despite claims from financial institutions that your mortgage "can be approved in minutes", you need to be 'application ready' before a formal submission.

To help you with that final hurdle before buying your first home, *The Sunday Business Post* spoke to financial advisers and lenders to find out what you should think about in the months leading up to your mortgage application.

First step

Contrary to the belief that the first step in the process is to find your dream home, the first thing to do is sit down with a lender or an adviser to assess what mortgage you qualify for.

Keith Anderson, president of the Institute of Professional Auctioneers and Valuers, said that first-time buyers were now expected to be more aware about their financial situation when

starting to shop around.

"It's not like it was 20 years ago when people were just looking for the sake of looking," said Anderson. "They'll do their homework to see what they can afford."

Repayment capacity

To guarantee a first mortgage you must be able to prove repayment capacity. It is not enough to have the financial means to repay, you need to demonstrate it with a paper trail. By paying rent or saving a sum equivalent to what your mortgage repayments would be on a monthly basis, lenders can be confident the applicant is reliable.

"We went through a time where banks were not as vigilant as they are now," said Rachel Doyle, chief operations officer at broker group PIBA.

"What banks want to see is a person who is going to be able to make the payments at this point in time and into the future."

Lenders will review your spending and saving habits over the last six months of financial statements. It is crucial that savings or rental payments, or both combined, are made through your direct debit or standing orders.

Paying your rent in cash or stashing your savings under the bed will create problems. Lenders are only interested in seeing money coming out of your account each month.

Equally, if you are living at home and paying a contribution to the household it would be a good idea to start making payments straight from your current account rather than giving it to a relative cash-in-hand.

That said, for some lenders, renting from a family member might not count as a formal agreement.

Another point to note is that some lenders will assess repayment capacity on a stressed payment at 2 per cent. Ken Murray, director at the **Association of Expert Mortgage Advisers**, said that banks were looking for candidates who paid rent and saved at the level of a stressed repayment.

"They want to know that if rates increased by 2 per cent that you can still meet that payment," he said.

To put this into context, typical first-time buyers look for up to 90 and 92 per cent mortgages. Most 90 per cent mortgages have a rate of 4.5 per cent, which the banks will stress test at 6.5 per cent.

If you qualify for a mortgage of €200,000, a stress test of 6.5 per cent will require proof you can make payments of €1,258 per month. Despite the fact that you will not be asked to pay this sum in monthly repayments, you will have to show rent and savings that equate to stressed rates.

Those hoping to take out a mortgage who are currently only saving about €1,000 a month would see the loan amount reduced down to €160,000.

Other criteria, which vary from lender to lender, might also include proof of a certain level of disposable income. You might be expected to have a minimum income amount after your mortgage has been paid.

AIB expects borrowers to have a minimum disposable income of €1,300 a month if you are a single applicant. For couples, this rises to €2,050 per month. KBC Bank looks for single applicants to have €1,650 a month of disposable income after mortgage payments.

Also, the lucky few who are gifted the full deposit need to be careful, as certain lenders may not approve.

Murray said that "somebody might have the income, they might have the

payment capacity, but they might not have the full sweep of lenders who would be keen on that".

"The phrase 'sharing the burden' is something that is thrown around," he added.

Current account

A strong application means a clean current account. Over the next six months, prospective borrowers need to get their current account in order so lenders do not have any doubts in their mind about who they are lending to.

For lenders, your current account gives them the best snapshot of your financial profile by looking at your spending patterns, particularly in relation to your credit card.

Withdrawing cash with your credit card is one of the biggest red flags for lenders, as they deem applicants with a history of cash on credit to be a person under financial pressure.

"The odd exception is fine," said spokesman Michael Dowling for the Independent Mortgage Advisors Federation. "But if there is regular cash being taken out of your credit card, then that is something the banks get very concerned about."

Make sure not to put cash advances on your credit card or to eat into your overdraft on your current account in the last six months. With overdrafts, financiers equate an overdrawn account to a loan that has yet to be paid.

Even spending with your debit card must display care. Large amounts being spent on luxury items or trips abroad will cause alarm bells to go off for lenders.

Of course, you are not expected to live frugally, but be more aware of your spending, as it sends a message that you are a stable applicant.

Other hazards to avoid are referral fees and unpaid items on your account. Again, this shows signs of stress on the operation of your current account.

According to Dowling, regular gambling is another item that banks like to avoid.

If there is a steady pattern of online bets placed on the Paddy Power website, for example, banks will be careful lending to somebody using money for a purpose where you could lose it.

Short-term loans might also create a stumbling block, as financial advisers recommend prospective borrowers to clear all outstanding loan repayments.

Anyone with previous bad loans which show up on the credit check will not be granted a loan.

While financial institutions might sell a mortgage application as an exercise in gathering paper, with one warning flag, you could be declined. The key is to prepare if you want to be approved. Those looking to buy in the second half of the year will thank themselves if they start planning ahead now to make sure buying their first home is a painless and straightforward process.

How much do I qualify for?

The amount you can borrow is estimated from your net disposable income. Although each application is examined on its own merits, if your income is greater than €35,000 in a single application, or €60,000 on a joint application, then you should qualify for a mortgage.

A single 28-year-old professional earning €38,000 per annum with an annual bonus of €4,000 could borrow up to €208,000 over a mortgage term of 35 years.

A 30-year-old applying on their own with a civil servant salary of €65,000 would have a borrowing limit of €300,000 to be paid back over 35 years.

A couple aged 32 and 34 with a combined income of €134,910 could qualify for a mortgage up to €699,000 over 35 years.

When assessing income, it is important to note that some lenders do not consider bonuses and overtime as an indicator of your net earnings.

Also, if you are self-employed or employed on a contract basis you could be asked for three years' worth of financial statements and estimated earnings for the next three years.

The best way to eliminate the guesswork is to speak to a financial adviser or directly to a lender.

