Living expenses under the spotlight of the banks

Banks are clamping down on investors from every angle, with 'living expenses' the latest factor to draw attention. How can you maximise your borrowing power when every little expense is under the spotlight?

TEN years ago, getting an investment loan was far easier than it is today. We've gone from one extreme to the other, with banks that were previously happy to hand over 100% loans in the past now fastidiously checking every minor detail before signing an approval.

These checks and balances are an essential part of a healthy banking system as they help investors to avoid overcommitting financially. So although many would prefer a return to a more relaxed servicing criteria, this is actually a preferable situation.

That said, I'm continually surprised at just how far banks go in adopting this cautious approach. Since APRA and ASIC intervened, lenders have raised the bar when screening applicants – and currently, it's living expenses they are focused on.

Living costs vs lifestyle costs

In the past, banks used HEM (Household Expenditure Measure) tables to account for an applicant's living expenses. Now they are using whichever is the greater figure – expenses declared by the applicant, or the HEM figure.

The new challenge is that some lenders are starting to include items that, in my view, should be classed as discretionary spending rather than living expenses.

Living expenses are routine bills that we can't avoid, such as groceries, petrol and electricity. Discretionary spending covers items that we choose to pay for but that we can stop paying for at will, like charity donations and restaurant visits.

Lenders are grouping a range of discretionary lifestyle items under the category of 'living expenses', including:

- holidays
- movie and theatre costs
- alcohol and cigarettes
- gifts
- newspapers and magazines
- cable TV and streaming subscriptions
- pharmacy and medical visits
- kids' after-school activities
- takeaways!

Some lenders are going even further by asking for everyday bank account statements so they can check salary credits and review daily expenditure.

What is the solution?

My advice to investors who are shopping for a loan is to do some groundwork well before you apply. It's unwise to front up to a lender without due preparation. Unless you earn a high income that allows you to move past the banks' increasingly stringent criteria and tests, you need to get your financial ducks in a row at least three to four months before you wish to apply.

Be aware of your daily expenses, and if some are excessive you may have to rein them in. It could mean bringing your own lunch to work more frequently, cutting down on alcohol and smoking, and even reducing eating out or holiday spending. At the end of the day it depends on how badly you want to invest in your next property if your servicing is borderline.

Reviewing your discretionary spending as a routine is good practice anyway, but it's particularly important if you're about to purchase a property. Any savings can make the difference between getting into your first (or next) investment property, or not. These savings can also be used towards your deposit or other property buying expenses, so keeping a lid on excess spending can only be beneficial. YIP

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OUR EXPERT

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