



5 dangers of pre-approvals

iChoice
INFORMED HOME LOAN OPTIONS



5 dangers you **MUST** know about pre-approvals

In the office, us bankers & brokers call them AIP's (Approval in Principle) but to the outside world we call them pre-approvals...strange hey?

Pre-approvals are only a lender's indication that they are willing to loan a borrower a sum of money for a property purchase, based on an initial assessment of your creditworthiness and borrowing capability. There's absolutely no obligation for them to end up actually approving the loan down the track!

#1

Valuation

Remember a 'pre-approval' is conditional upon several things, but mainly the valuation. We've all heard of stories where valuations get done and come in less than what the purchase price was. In such a case, your pre-approval for an 80% loan is void, as the LVR is now higher. If you're not buying at an auction, it's best to get a 5-day Cooling Off period, during which time the bank can have the place valued and give you a Formal Approval. If you are buying at auction, or even worse, buying off-the-plan, do you have a bit of spare cash in case this happens? Do you have a Plan B?

#2

Acceptable Security

Banks have restrictions on certain postcodes. Not because the areas are necessarily perceived to be bad, but they may ban a postcode due to an anticipated over supply in that particular area, or sometimes a particular bank may be over-exposed in a certain apartment block. Be sure your broker has checked out the address of the place you're going to auction for! It only takes 5 minutes...

Do you know what the minimum square meterage is by the bank who issued you with a pre-approval? if you're buying off-the-plan, the postcode restriction may be placed once you've already exchanged - which can be disastrous.

#3**Assumed rental income**

If you're buying an investment property, the bank has given you a pre-approval assuming what the rent will be. Let's say your broker has assumed a rent of \$1,000 a week for a \$1.4M property. If the bank's valuer assigns an estimated rent of only \$700, your pre-approval might be void. Many people get caught here. If your ability to demonstrate Capacity (your ability to service the loan) just scraped it in, know how much leeway you have... ask your broker what he input as the expected rent... so you don't get caught out! Inexperienced brokers go a bit gung ho here to make it work, without you even realising what they have assumed the rent to be. Use the right professionals.

By the way, if you buy a house without a kitchen or bathroom, the valuer will likely assign \$0 rent, as it's deemed unliveable, which could leave you stranded (unless the vendor gives you an extended settlement and immediate access for you fix it up before the val gets done). The bank's servicing calculator won't even factor in the negative gearing if they adopt \$0 rent. Watch out!

#4**Has your situation changed?**

After first getting a pre-approval, have you taken out a car loan? A credit card? Still doing the same overtime? Have you had a baby?? (each dependant you have can reduce your ability to borrow by about \$80,000!)

Pre-approvals just mean that on the day you got it, based on your situation at that time, and based on the bank's policy at that time, based on your Credit Policy at that time, and subject to them being happy with the valuation, that you should be approved. It's important to be aware of what can go wrong and great if you have a back-up plan.

#5**Policy**

Banks change their policies all the time. You might have a pre-approval for 80%, but by the time you seek formal approval they may have scaled back to 70%! Their calculator for checking out your Capacity may have got harsher, as they seem to be these days. If you're buying off-the-plan for a 9-month period, you might find that when the initial pre-approval expires in 6 months' time, you are unable to renew it. This happens.

What happens if you've been approved a Family Guarantee loan, only to find that after 6 months, your pre-approval can't be renewed as the bank's policy has changed, for example, by insisting that your parents are still working (watch this space).

Get the best advice. If your bank or broker isn't intensely discussing Plan B with you, get someone else.



THANKS for reading

If you are comfortable with the risks, that's great – at least you are making an informed judgement. There are other things you may want to learn about, if you're about to get a Pre-Approval.

If there's more than one of you, you must consider who's name to buy in (Asset Protection Vs Negative Gearing), how each banks re-classify owner-occupied loans and investment loans if things change, LMI Considerations (each bank is different). Get advised.

Disclaimer: The views provided here are of a general nature only and should not be taken as financial advice. Please speak to a qualified professional before making any financial decision.

