Family planning: Applying for a home loan with a baby on the way

A new baby completely changes your life. Are you also prepared for how a new baby might affect your chances of buying a home? Here are some things to consider before you submit your application.

When a lender assesses your home loan application, they look at your income, assets, debts and expenses before deciding whether they think you can make the repayments. Those figures are likely to change when you have your first child. That means your eligibility for a home loan could also change.

Changes to your income

A lender needs to know that your income will cover your mortgage repayments, even while someone's taking time off work to be a new mum or dad.

If you're the primary carer and you plan to leave employment temporarily or indefinitely, the loss of your income will affect your household income. When you're applying for a loan and planning to take an employment break, you may need a letter from your employer confirming your return-to-work income.

Both parents may be eligible for parental leave. In many cases the parental leave pay will be lower than your regular income. To get an idea of what your new income will be, figure out how much parental leave you plan to take. Also speak to your employer to find out whether they offer any additional entitlements. A financial planner will be able to discuss your personal situation, including any tax benefits you might qualify for.

Cost of raising a child

When you calculate your expenses, you'll need to factor in the cost of raising your child. As a guide, a University of Canberra study estimated that low income ($1,160/week) families spend on average 7.4% of their earnings to raise a child aged 0–4, whereas high income ($4,984/week) families on average spend 4.6%.

Whatever your income, when you have a child your ongoing expenses will go up. This means you'll have less money to make home loan repayments, so the amount you'll be able to borrow may be less.

Cost of the loan

Before deciding on a home loan product, research the likely cost of the loan and the size of the repayments. Many lenders, brokers and real estate websites have free tools and calculators.

The following items will affect your repayments:

- The amount you borrow.
- The length of the loan; the average home loan is 25–30 years.
- The interest rate.
- Whether the interest rate is fixed, variable or combined.

Your financial commitments

A mortgage is a financial commitment – and so is a baby. When you're preparing to take on both at the same time, it's a good idea to look at the whole picture.

First, assess your current financial situation by pulling together information about your income and expenses, including any existing loans. What repayments can you afford?
Then, using this information, adjust the amounts to reflect your income and expenses after having your child. What does that do to your home loan repayments?
Although raising a child will be an added expense, you may find that you can reduce your discretionary costs – such as dinners and holidays. Depending on how much you can reduce, this may even give you about the same financial capacity. Or perhaps you can still afford to service a mortgage but may not be able to borrow as much as you first thought.
You'll need to decide whether a mortgage is a worthwhile debt, given that your household income and expenses will change when your baby comes along.
Do you want to start a family now, or do you want to build a nest? An informed decision might make both possible if you understand the financial changes a child will bring. To discuss your home loan options, contact your mortgage broker.