

How much can you afford to borrow with your first home loan?

Understanding how much borrowing capacity you have when buying your first home is an essential step for all newcomers to home ownership.

The question of “How much can I borrow?” rears its ugly head for all new home buyers. As daunting as it can be, understanding your borrowing power is important – and essential – for those ready to get their foot in the door with their first home purchase.

Owning property in Australia is a dream for many young professionals and families. Aside from the financial benefits of owning a home, being able to call a slice of land your own is one of life’s most coveted accomplishments.

Financial factors

Before you start looking for a property – either to live in or as an investment – take a look at your finances from all angles and ask yourself a few important questions:

Do I have enough money to pay for a deposit?

Can I afford to make monthly repayments?

Is my repayment/credit history positive?

Have I assessed my household budget?

Am I planning to start a family soon?

Understanding where you stand financially and what financial loads may be coming your way in the near future can give you a clearer picture of how large or small your borrowing capacity should realistically be.

Figures that figure

How much you can comfortably afford to borrow comes down to two factors:

The size of your deposit. Most lenders require a minimum of 10 per cent of the total property cost.

How much you can afford in mortgage repayments.

If you’re currently renting a property, your weekly or monthly rental amount is a good indication of the starting figure for your mortgage repayments. This is the bare minimum, however. You will need to add other expenditures to this figure, such as rates, taxes, lenders mortgage insurance (if applicable), among others.

New buyers may also want to consider single or joint income amounts. As a general rule, your mortgage repayments (along with other short and long-term expenses) shouldn’t cost more than 35 per cent of your gross income.

Help wanted!

Many people choose the help of a mortgage broker when shopping around for their first home loan, and for good reason. Using a mortgage broker to seal the deal can give you greater choice, peace of mind and clarity, especially for those just starting out in the property market.

Mortgage brokers have a wealth of knowledge to steer you in the right direction in terms of what you can realistically afford versus what you think you can afford.

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There are many [home loan calculators](#) that can also help buyers get a sense of their borrowing capacity. These online calculators factor in your loan type, loan length and interest rates to calculate a general repayment figure. Your broker will be able to walk you through these calculations to ensure you're aiming for the right figures.

Doing your due diligence from the very start will pay big dividends when it comes to home ownership in Australia. Putting your expenses under the microscope may be intimidating at first, but it will ensure your home loan works as hard for you as you did for it.

Speak to a broker today to seek out more information on home loan borrowing.