Potential Issues in Borrowing to be Aware of.

There are a number of potential land mines in the property area that investors need to be aware of and make a considered decision before they purchase.
This is not an exhaustive list but is designed to give a flavour of the types of hurdles you may come across .
Generally the higher the loan amount and loan to value ratio (LVR), the tighter the policies.
A full doc loan provides greater surety than a low doc loan application for a lender.

The 5 C's
Lenders look to what they term the 5C's to assess a loan application:

- Character – a credit check is done to assess likelihood to repay the loan
- Capacity – income and liabilities, can you afford to repay
- Capital – being able to continue to pay, being hurt money or skin in the game (LVR)
- Conditions – for an enforcement situation, suitability of property to sell and not lose
- Collateral – the last is based on the first four, is the lenders overall security position sufficient

Any of these may pose an issue when applying to borrow.

Postcode Almost all lenders have a postcode guide in which they will or will not lend to that determines their maximum loan amount or LVR. If the loan needs to be mortgaged insured, the mortgage insurers also have a post code guide. Smaller towns or remote locations may restrict borrowings as can inner city high density areas such as Docklands in Melbourne. Check before you buy.

Inner city high density is defined by lenders as any block of units in a particular postcode range, generally within CBD of capital cities. They are units greater than 3 stories high or more than 30 apartments and tend to have lifts, balconies and views. LVR's may be restricted or a lender will reach a maximum exposure to that particular complex.

Property Types Different lenders may accept a range of different properties, again at potentially limited maximum borrowing amounts or LVR's.

- Vacant land > 50 hectares may not find a lender
- Zoning can be an issue where Residential 1 is fine, commercial, mixed use or rural may have restrictions as to lending.
- Title types can also place restrictions such as company title or stratum title.
- Property size generally needs to be > 50m2 (about 5 square) especially for loans > 80% LVR. There are some lenders who will accept smaller units but often at lower LVR's, again check first then match the lender to the property.
- The type of property, student accommodation, serviced apartments, display homes, over 50's villages, owner builders, portable constructions, kit homes are all examples where lenders may not be interested in lending to that type of security.

Ownership There are some lenders with a strange view on ownership where they do not allow or require independent legal advice to be obtained where there are different names on title to the security to that on the mortgage. The term is third party security. It is often used where for asset protection and tax effectiveness one party in a relationship (say husband) will purchase an investment property in his name alone yet due to serviceability reasons, both husband and spouse needs to be on the mortgage. Determine ownership questions first then match the lenders.