The ins and outs of home loan affordability assessments

Purchasing your first house is a big step and most people will have to apply for a substantial loan from a financial institution. In order to give yourself the best shot at being granted a loan for your dream home, it is important to understand what the bank uses to assess your affordability.

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"One of the major reasons that a home loan application is declined is because the potential homeowner unable to afford the monthly repayments," says Albertus van Staden, Head of Credit at FNB Housing Finance.

Assessments

While there are tools that will give you an indication of what you will be granted, such as on www.fnbpropertyleader.co.za, these are estimates and in order to determine a final bond amount the bank will use your income as well as your credit and living expenses to perform an affordability assessment.

"An affordability assessment is vital to the home loan process, as it will determine what the bank grants as the final home loan amount," says van Staden. "Everyone wants to show that they earn enough income to afford the house they want, you also need to be realistic about what you can actually afford."

The first port of call is to determine your income.

Typically an income is received through a monthly salary; however salaries can vary according to the work, and payment structures of individuals. For example, some people may receive a fixed amount while others may receive commissions due to the nature of their jobs. A salary may also include additional forms of income such as allowances, overtime and bonuses.

The bank also considers other forms of income that are derived from investments such as rental income on other properties.

"We will base the loan amount on the expected monthly income you receive," says van Staden. "This means that for a person with a fixed monthly salary, meaning the 'take home' pay is the same every month, the bank may take this entire amount into consideration. However, if you are a commission earner, or receive income on an irregular basis such as overtime, we will use the average income over the last few months, with a minimum of three months. Some lenders prefer to look at an even longer period as income can sometimes be seasonal or exclude income such as overtime, as this is not guaranteed every month."

After ascertaining your income, the bank will then consider your expenses.

"Taking just your income into account is not an accurate assessment of your affordability, as there are expenses that will have to be maintained along with your bond repayments," says van Staden.

Expenses

There are three different types of expenses that will need to be included in your application: credit, living and additional expenses.
Credit expenses are monthly instalments for debt obligations such as credit card or car repayments.

Living expenses are categorised as essential expenses, these are expenses that you can't live without such as transport, food, education, medical and electricity and water to name a few.

Finally, additional expenses are those that are those that are not vital for everyday living such as satellite TV, airtime or assurance premiums.

"It is vital to be honest when declaring true income and expenses. We all want to own that dream house, but its worse to see that same house being repossessed due to defaults on the monthly repayments. If you cannot afford it, rather save for a bigger deposit or look for something that is within your means," concludes van Staden.