7 Reasons

Your Borrowing Capacity Is Lower Than You Think

And exactly how to fix each one

By the team at Loan Experts · 2026 Edition

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The 7 hidden factors that shrink your borrowing capacity — and what to do about each.

Most people assume their borrowing capacity is simply their income multiplied by a fixed number. In reality, lenders subtract a long list of factors before arriving at the figure they will approve. This guide walks through the 7 most common — and most overlooked — reasons borrowers end up with less than they expected, and what you can do about each one.

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No. 1

Your Credit Card Limits — Not Just What You Owe

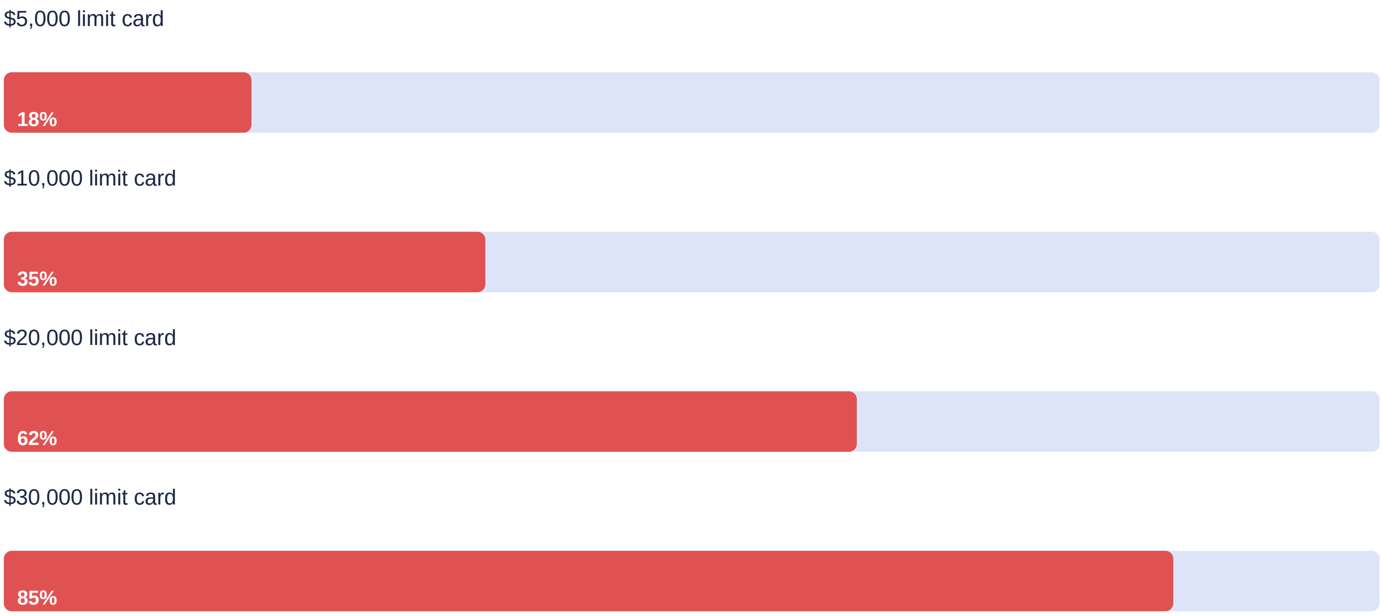
Banks assume you could max out every card tomorrow

This surprises almost every first-time borrower: lenders do not assess your credit card debt based on your current balance. They assess it based on your total credit limit — the maximum you could theoretically draw on each card.

For example, if you have two credit cards with limits of $10,000 each but carry zero balance, a lender may still reduce your borrowing capacity by $60,000–$100,000 depending on how they apply the repayment rate (typically 3.8% of limit per month).

- A $10,000 card limit can reduce borrowing capacity by $30,000–$50,000
- Having 3–4 cards is significantly more damaging than 1 card with a higher limit
- Buy-now-pay-later accounts (Afterpay, Zip) are also counted by many lenders
- Closing unused cards before applying can immediately increase your capacity

Estimated borrowing capacity impact per credit card limit:



* Approximate reduction in borrowing capacity (as % of $600K benchmark loan)

> ★ **Expert Tip**
>
> Cancel credit cards you do not need at least 2–3 months before applying. Even if you carry no balance, the limit is counted against you every time.

No. 2

HECS/HELP Debt and Student Loans

Government study debt quietly reduces what you can borrow

HECS-HELP debt is automatically repaid through the tax system once your income crosses the repayment threshold. Lenders treat this exactly like any other liability — the compulsory annual repayment is deducted from your net income before they calculate how much you can borrow.

On a $60,000 salary with a $40,000 HECS debt, your compulsory repayment is approximately $2,700 per year — reducing your borrowing capacity by roughly $30,000–$50,000 depending on the lender. The higher your income, the larger the repayment percentage applied.

- $20,000 HECS balance can reduce borrowing capacity by $15,000–$25,000
- $50,000 HECS balance can reduce borrowing capacity by $40,000–$60,000
- Repaying HECS voluntarily before applying can meaningfully increase your capacity
- Some lenders are more generous than others in how they calculate HECS impact

★ Expert Tip

If you are close to paying off your HECS debt, it may be worth clearing it before applying for a home loan. The boost to your borrowing capacity can exceed the cost of repaying early.

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No.
3

Living Expenses — Banks Assess More Than You Declare

HEM benchmarks often work against higher-income earners

Since the Banking Royal Commission, lenders are required to use actual living expenses rather than accepting self-declared figures at face value. They apply the Household Expenditure Measure (HEM) — a benchmark based on your income, family size and postcode — and use whichever is higher: your declared expenses or the HEM figure.

If you earn a good income, the HEM benchmark assigned to you will be high — even if you actually live frugally. This can significantly reduce the net income lenders use to calculate serviceability. Lenders are also now reviewing 3–6 months of bank statements to verify spending patterns before approving.

- Eating out, subscriptions and entertainment show up on bank statement reviews
- Lenders use the HIGHER of your declared expenses vs the HEM benchmark
- A single person on $120K may have a HEM of $3,200+/month applied automatically
- Reducing visible discretionary spending 3 months before applying can help

★ Expert Tip

Pull 3 months of bank statements and review them as a lender would. Reduce visible discretionary spending in the months before applying — it genuinely makes a difference.

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No. 4

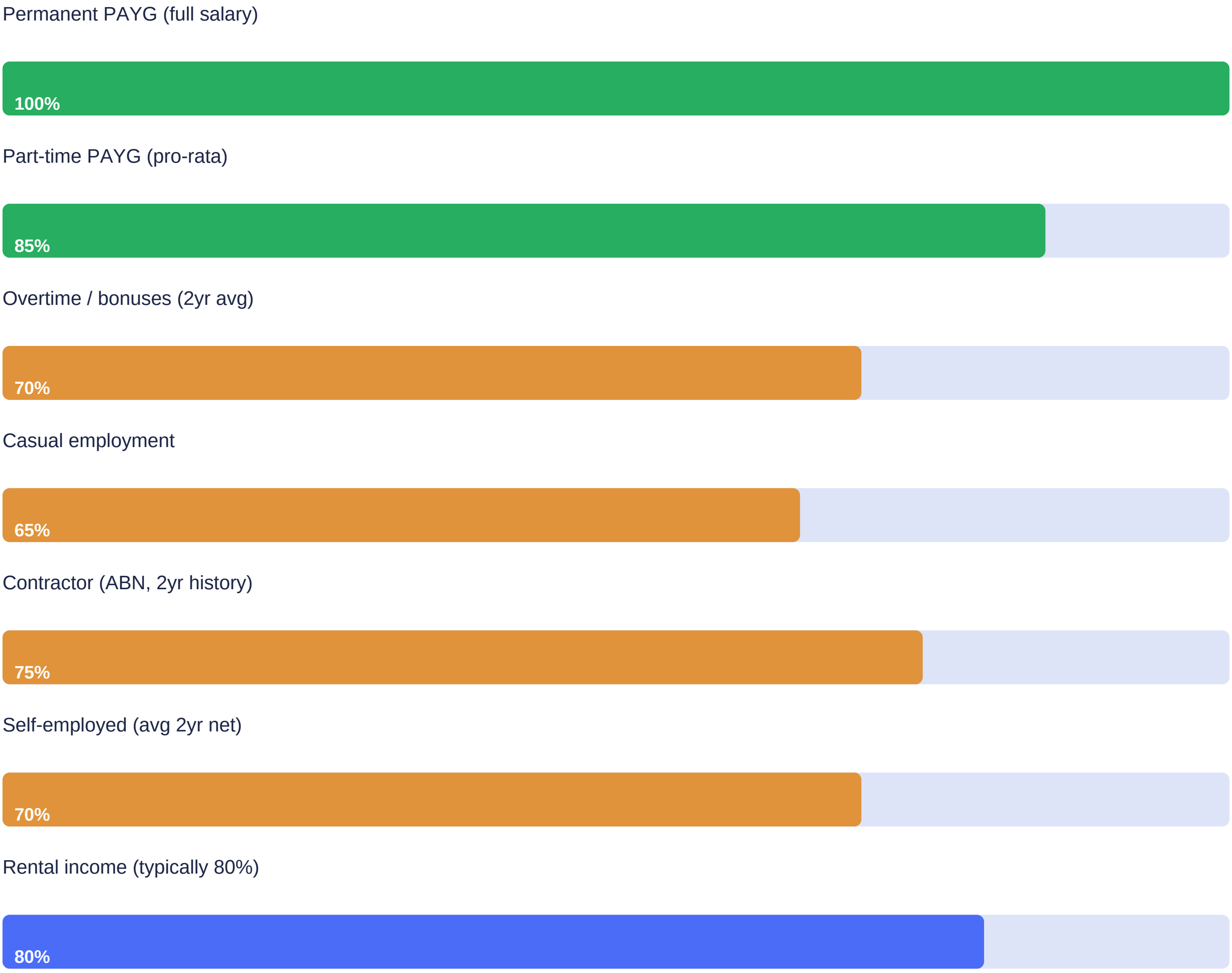
Employment Type and Income Stability

Not all income is treated equally by lenders

Your gross income is not the figure lenders use. The amount they count depends heavily on how that income is earned. Permanent full-time PAYG employees have the strongest position. Casual workers, contractors, and the self-employed face additional scrutiny and often have income discounted or averaged differently.

Overtime, commissions and bonuses are typically averaged over two years — if you had a record bonus year followed by a lower year, the average counts. Some lenders will not count overtime at all. Understanding how your income will be assessed before you apply prevents unwelcome surprises.

How different income types are assessed by lenders:



* % of gross income typically counted by mainstream lenders

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No. 5

Existing Property Loans and Investment Debt

Every existing loan reduces what you can borrow next

If you already own property, your existing mortgage repayments are treated as a committed expense that directly reduces your serviceability. Even if the property is positively geared, lenders typically only count 80% of rental income (to allow for vacancy and management costs) while counting 100% of the loan repayment outgoing.

Cross-collateralising loans (using one property as security for another) can also create complications — it ties your assets together and reduces flexibility. A broker can help you structure multiple properties correctly to maximise your overall borrowing capacity.

- Rental income is typically assessed at only 80% by most lenders
- Investment loan repayments count at 100% as a committed expense
- Negative gearing reduces your net income as assessed by lenders
- Avoid cross-collateralisation — keep properties on separate facilities
- Paying P&I (not interest-only) on investment loans now improves future capacity

★ Expert Tip

We map out your full property portfolio before recommending a loan structure. Getting the structure right from the start protects your capacity to purchase again in future.

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No. 6

Your Credit Score and Repayment History

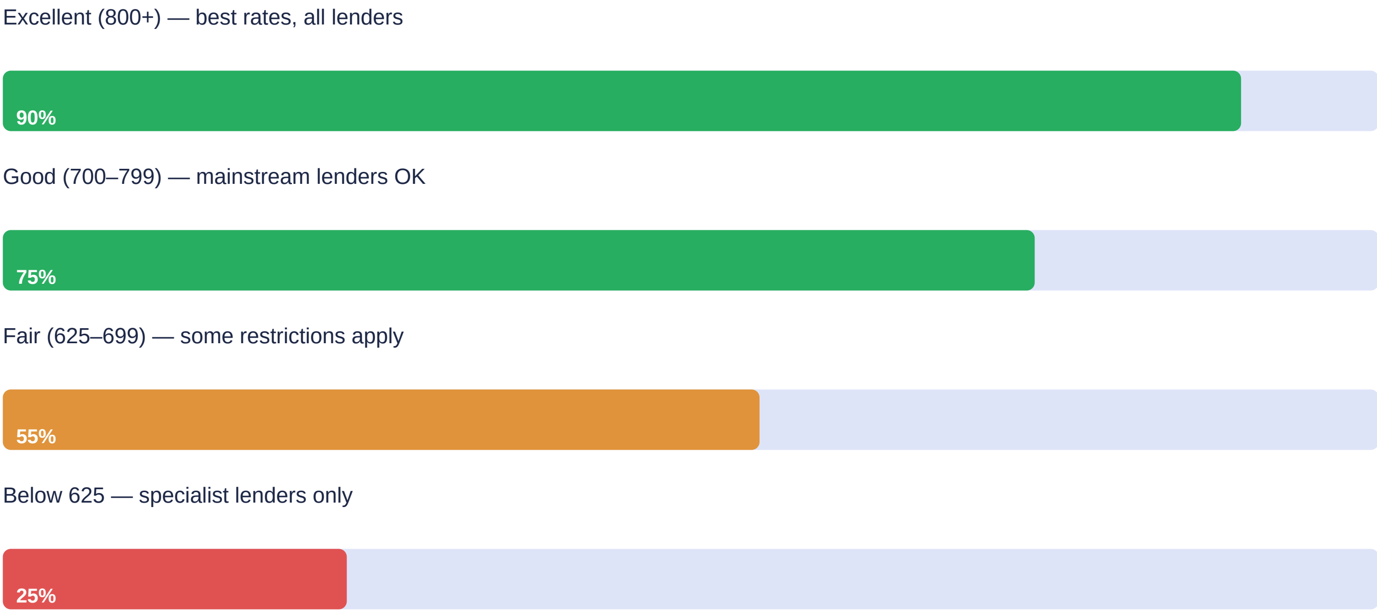
A low score reduces options — not just approval chances

A poor credit score does not just risk a decline — it limits which lenders will consider you, often pushing you toward specialist lenders with higher interest rates. This increases your repayments, which in turn reduces your borrowing capacity. The impact compounds across several dimensions simultaneously.

Credit scores are affected by factors many people are unaware of: the number of applications made in the past 12 months, how long you have held your oldest credit account, and even how often your address changes. A missed payment from 3 years ago can still affect your rate today.

- Each credit application creates an inquiry visible to future lenders
- A missed payment stays on your file for 2 years
- A formal default (60+ days overdue) stays for 5 years
- Closing old accounts can actually hurt your score (reduces history length)

Credit score ranges and their impact on home loan options:



* % of lender market accessible at each score range (approx)

★ Expert Tip

Get your free credit report from Equifax or Experian before applying to anything. We review it with you and recommend the right lender for your score — not just the best rate.

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No. 7

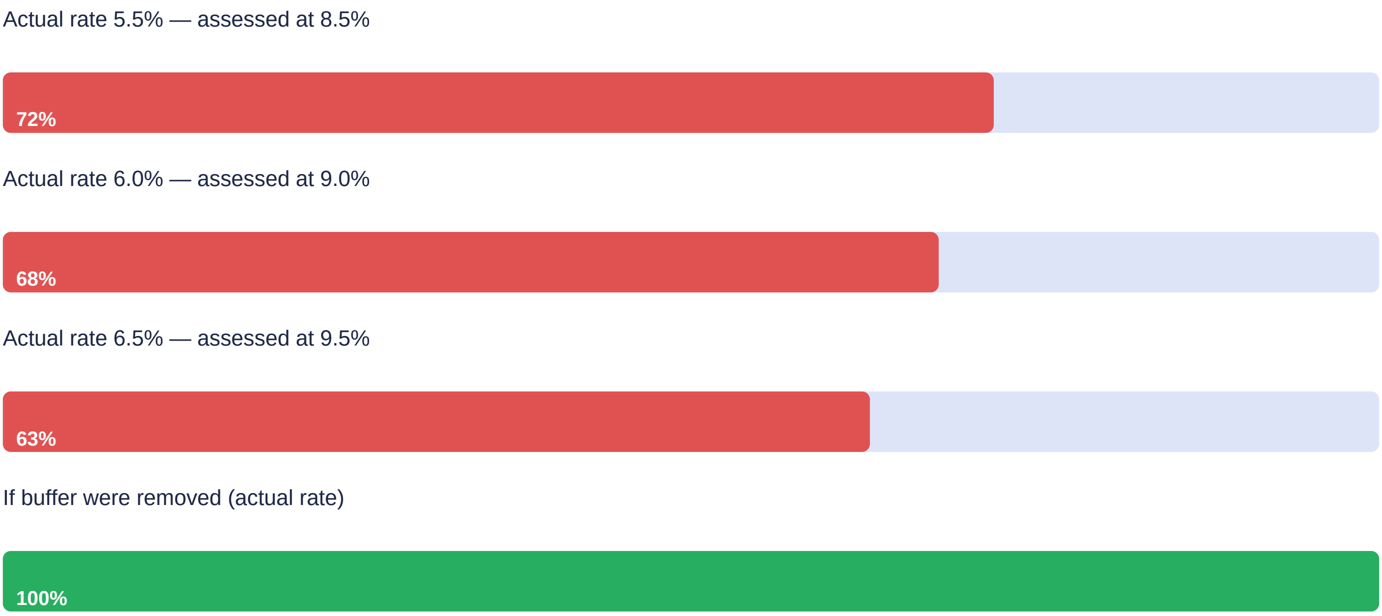
The Buffer Rate — How Banks Stress-Test Your Loan

Lenders don't assess at the actual rate — they add a 3% buffer

APRA requires all lenders to assess your ability to repay at 3% above the actual interest rate — the "buffer rate" or "floor rate". This is the single biggest hidden reducer of borrowing capacity for most applicants.

If your actual loan rate is 6.2%, the bank assesses whether you can afford repayments at 9.2%. On a $600,000 loan, the difference in monthly repayments between 6.2% and 9.2% is approximately $900/month. This is the margin the bank needs to see you can service comfortably before approving your loan. It is why many borrowers find their approved amount significantly lower than a simple income-multiple calculation would suggest.

How the 3% buffer affects approved borrowing on a $120K income:



* Approx borrowing capacity as % of no-buffer scenario (illustrative)

★ Expert Tip

The buffer is fixed by regulation — but your income, liabilities and loan structure can all be optimised to maximise what falls within the buffer assessment. That's exactly what a broker does.

No.
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How a Mortgage Broker Maximises Your Capacity

Compare 40+ lenders — structured the right way, first time

Each of the 7 factors in this guide can be addressed — often significantly — before you lodge a single application. A mortgage broker assesses your full picture first, then structures your application to present your income, liabilities and deposit in the most favourable way across the right lender.

Cancel unused credit cards

Immediately frees up assessed capacity

Choose the right lender

Each treats income & debt differently

Clear or reduce HECS

Reduces committed expense calculation

Structure investment loans

Maximise serviceability across portfolio

Review bank statements

Identify visible spending to reduce

Time your application

After expenses reduce, before rate changes

Check credit file early

Fix errors before applying

Get pre-approval right

One clean application, no credit damage

★ Book Your Free Assessment

Every situation is different. Book a free assessment with Loan Experts and we will calculate your true borrowing capacity, identify every factor reducing it, and show you exactly what steps will improve your position before you apply.

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Your Borrowing Capacity Self-Check

Review each factor below and tick where you currently stand.

- **Credit cards** — I have closed all unused cards and reduced limits on active ones ☐
- **HECS/HELP** — I have checked my HECS balance and factored it into my budget ☐
- **Living expenses** — My bank statements show controlled discretionary spending (3 mths) ☐
- **Employment** — I have 2 years of consistent income evidence in the same role/type ☐
- **Existing loans** — I understand how my current loans affect my new borrowing capacity ☐
- **Credit score** — I have obtained my credit report and reviewed it for errors ☐
- **Buffer rate** — I have modelled repayments at 3% above the actual interest rate ☐

Not sure where you stand? We will calculate it for you — free.

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Ready to Find Out Your True Borrowing Capacity?

We compare 40+ lenders to find the best structure for your situation.

No cost. No obligation. No impact on your credit score.

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