



# DON'T GO PROPERTY SHOPPING WITHOUT ONE!

Mortgage brokers often hear clients ask whether they really need to obtain a pre-approval before buying a property. My answer is always a resounding “yes!” Here’s why.

## First of all, let’s talk about what a pre-approval is.

Essentially, it is a conditional approval from a lender we have qualified you for, that tells you how much money you can borrow to buy a property. It is important to note that **a pre-approval is not a guarantee** that you will obtain a loan – **it’s just an indication of how much you can potentially borrow**, subject to certain conditions being met.

## So, why do you need a pre-approval?

Well, for one thing, it may save you possible heartache and stress once you have found and made an offer on your dream property.

## Let’s walk you through an example.

Say you find your dream home and decide to bid at an auction without a pre-approval. You end up winning the property and then come to us for finance. This is when the headaches could begin.

Without knowing your full borrowing capacity and the other costs involved in purchasing your dream property you may find yourself unable to secure finance to actually pay for it. Although you may

have crunched the numbers yourself, and think you can comfortably afford the property, not all lenders may agree.

This can be a nightmare scenario as you may end up losing your deposit and potentially face legal action from the vendor.

## Advantages of having a pre-approval

Even if you’re not buying at auction, having a pre-approval in place can still be a huge advantage. It shows vendors and real estate agents that you are serious about buying and can confirm you have the financial means to do so. This can give you an edge in a competitive market where there may be multiple buyers competing for the same property.

Another benefit of having a pre-approval is that with some lenders the amount approved as your borrowing capacity remains in place for a certain time frame (typically up to three months) regardless of whether interest rates rise. This means that if you obtain a pre-approval now, and interest rates go up during this time, your borrowing capacity may not be affected. Every situation is different and all the overwhelming information out there can be confusing, so please ensure you have a chat to us first.

On the other hand, if you don’t obtain a pre-approval and wait until you find your dream property and interest rates increase in the meantime, your borrowing capacity may decrease because your serviceability will be based on the new interest rate.



This may potentially make it harder for you to secure the same amount of finance.

### So, what happens if you buy a property without a pre-approval and then can't obtain finance?

Well, that's not a good situation. If you have an unconditional or binding contract (ie a contract that is not subject to finance), you are legally bound to complete the purchase regardless of whether you can obtain finance or not. This means you may be forced to fund the entire purchase price in cash and, let's face it, for most people that is not feasible.

Find out here to learn ['How to obtain pre-approval for your next loan'](#).

### What can you do?

If you do find yourself in this situation, the first thing we recommend is to speak with us to see if there are any other options available to you. In some cases, we may be able to find a different loan product from another lender that suits your financial circumstances.

Alternatively, you may need to consider finding alternative finance, such as a personal loan or borrowing from family or friends. And if all else fails, you may need to pull out of the purchase altogether. This can be a difficult decision to make, especially if you've already fallen in love with the property. And you will definitely lose your hard earned deposit.

What is important to remember is that a property is a huge financial commitment and you don't want to find yourself in a situation where you are unable to meet your repayments.

As your finance specialist, we believe that obtaining a pre-approval before buying a property is absolutely essential.

It can help you avoid the heartache of being unable to secure finance, give you an edge in a competitive market and potentially lock in your borrowing capacity for a period of time.

So, if you are thinking about purchasing a property soon, then make sure you speak to our finance team so we can help you obtain your pre-approval before you begin searching.

It may save you a lot of stress and worry when you do actually find your dream home.

After all your *Property and Finance* matters.

Make sure you read our article **'How to obtain pre-approval for your next loan'**.

