

CHAPTER THREE - HOME LOAN FACT SHEET

Commitments

How banks view your existing financial commitments - and why a forgotten credit card limit could be quietly costing you a hundred thousand dollars in borrowing power.

Commitment vs Expense

Banks treat these two categories differently — and the line between them isn't always obvious.

COMMITMENT

Contractually obliged

- Home loan repayments
- Personal loans (secured & unsecured)
- Credit cards
- Overdrafts
- Equipment & vehicle leases

EXPENSE

Voluntary but ongoing

- Food & groceries
- Transport
- Electricity & water bills
- Entertainment
- Subscriptions

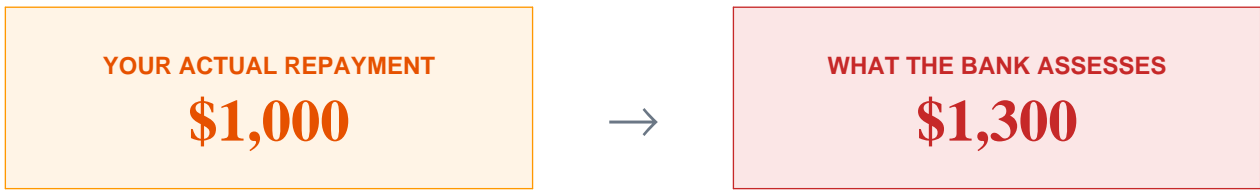
HEADS UP

Buy-now-pay-later services (Afterpay, Zip and similar) sit in an awkward middle ground. Most lenders look at your **limit** and assume a monthly repayment from it — same way they handle credit cards.

How commitments affect borrowing

For home loans and personal loans it's straightforward: whatever your **required monthly repayment amount (RMRA)** is, that's what gets captured as an ongoing payment to be deducted from your income.

But here's the twist — banks take a risk lens to everything. They don't assess your repayments at the contracted amount. They build in a buffer.



That \$300 difference materially impacts how much you can borrow — protecting you (and the bank) if interest rates rise.

Some lenders will use the actual contracted repayment — they’re typically the ones who’ll lend you more. This is exactly where a broker earns their keep.

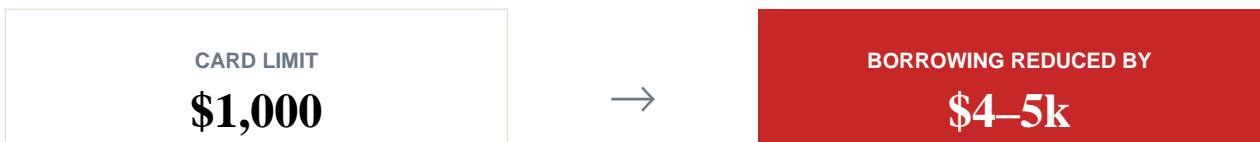
Novated leases

A novated lease lets you minimise your taxable income while still paying for the commitment. Some lenders understand this — they’ll still deduct the commitment but will also let you use a tax-free income component, which can lift your borrowing capacity.

Credit cards — the hidden killer

Most people have credit cards for emergencies, rewards points, or “got it years ago, never used it.” Here’s the catch: when a bank assesses you, they only look at the **limit** on the card, not the balance.

The \$1,000 limit rule of thumb



WORKED EXAMPLE

If you have a \$25,000 card limit “just because” but only owe \$5,000 on it, that extra \$20,000 limit is reducing the amount you can borrow by roughly **\$100,000**. If you don’t need the limit, drop it. If you don’t need the card at all, close it.

HEM — the household expenditure measure

HEM is one of the most misunderstood parts of a loan application. It’s **not a one-size-fits-all figure** — banks calculate a minimum living expenditure based on adults in household, dependants, household income, and location.

REAL-WORLD EXAMPLE

A couple with one dependant earning \$150,000 in Brisbane will have a **different HEM** to the same family in Perth — and different again in regional areas. It also varies lender to lender.

Categories that sit outside HEM

- Private school fees
- Private health insurance
- Investment expenses
- Rental expenses

SELF-EMPLOYED WATCH

If you run general expenses through the business and personal spend is minimal, banks will **still apply a minimum HEM** based on adults, income, and location. This trips up a lot of self-employed applicants.

Got a question this raises?

Every situation is different. Book a free, no-obligation chat with Jonny and let's walk through your numbers.

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