6 finance mistakes all new property investors make

Today there are more finance options available than ever before, and with so much information at our finger tips choosing a loan should be easy to do. But it isn't always that simple. Make sure you're not making one, or all, of these common errors.

1. Going on spending sprees

Zaki Ameer, real estate expert and founder of Dream Design Property, says banks only have a limited amount of funds to allocate to loans, and therefore need to ensure they only approve those who will be able to pay them back.

"Many new investors are applying for loans of 90 per cent and upwards, and given this high level of debt, banks and insurers look at purchases from past statements to determine the applicant's consistency to determine their eligibility," he said.

"Any erratic purchases or trends will likely lead to the loan being rejected."

2. Doing too much research

Afraid of making an uneducated decision, Mr Ameer says that many new property investors spend a significant amount of time researching each and every possible option.

"Although having an understanding of the market is important, if a person supplies their details with a bank regarding a loan, even if it's just to enquire about rates, this can generate a hit on their credit file," he said.

He said that strikes on a credit file means banks assume the person has been declined elsewhere, making it harder to gain approval.

3. Forgetting to pay bills

Forgetting to pay one phone or credit card bill might not seem like an issue, but Mr Ameer points out that any missed payments places a default against a person's record - which is a significant red flag when being assessed by banks and insurers.

"If a person is aware of any defaults against their name it's crucial to be honest and address the reasons in an application; otherwise the person is deemed too untrustworthy," he said.

4. Thinking brokers offer higher interest rates

Mr Ameer said an age old misconception is that brokers are more expensive than going directly through the banks because they add on a commission fee.

"Instead, brokers make a profit from the commission they receive from the bank once a client's loan has been approved. This means that from the applicant's perspective, a broker provides an unbiased expert opinion, free of charge," he said.

5. Not having their current finances set up correctly

Mr Ameer said when applying for a loan, a person's savings and credit card accounts are extremely important, and that many new investors don't realise that a person's credit card limit affects the chance of getting a loan.

"Even if the card has zero debt waiting to be paid off, the limit itself is still considered debt by the banks, as this is how much the person has the capacity to spend," he said.

“Similarly, having all of a person’s money in one ‘everyday savings’ account is detrimental, as it isn’t reflective of how much is being saved specifically to repay the loan.”

6. Fixing interest rates at the wrong time

Most people fix rates when the rates are already on the way up, says Mr Ameer, instead of when rates are historically low, i.e. the current time.

“If an investor isn’t planning on selling the property, they should consider and weigh up the options for fixing the interest rates for the long term,” he said.

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