



## PRACTICAL GUIDE

# Borrowing Capacity Stress Test

Model your maximum loan at today's rate plus a 3% APRA buffer, and see what falls off the table if rates rise again.

## How banks calculate it

- Gross income, less tax, less existing commitments, less living expenses.
- Living expenses based on HEM (Household Expenditure Measure), often \$4,000+/month for a couple.
- Stress-tested at the lender's assessment rate (currently +3% above the actual rate).
- Discounted for variable income (bonuses, dividends, second job).

## Run your own stress test

- Take loan repayment at current rate.
- Add 3% and recalculate; if it exceeds 40% of net income, you're stretched.
- Subtract 25% of gross income for tax and HEM.
- Subtract existing repayments (credit cards, car, HECS).

## Levers to increase capacity

- Pay off and close credit cards before applying.
- Reduce credit card limits; banks count the limit, not the balance.
- Lengthen loan term from 25 to 30 years.
- Add a partner's income (joint application).

## What reduces capacity

- BNPL accounts (Afterpay, Zip) count as commitments.
- HECS-HELP debt reduces capacity by approximately \$10k per \$1k of annual repayment.
- Investment property losses (negative gearing) may or may not help depending on lender.

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