

## **WHY USING ZIP AND AFTERPAY TODAY COULD KILL THE PROSPECT OF A HOME LOAN TOMORROW: EXPERT WARNS MILLENNIALS**

A housing affordability expert is alarmed with millennials' love affair with 'buy now, pay later' arrangements and warns it could stop banks from approving their home loans in the future.

"With housing affordability reaching crisis levels nationally, being knocked back for finance to secure a home you could otherwise afford is heartbreaking," Ian Ugarte said.

"What young people don't seem to understand is that every purchase they make, or repayment they fail to make with a Buy Now Pay Later provider, will be taken into account when it comes to the banks assessing their credit risk.

"Those hoping to own their own home in the future may not realise that the pair of shoes bought on impulse via Zip or AfterPay today, may lead to lenders questioning their ability to save for and service a large home loan debt in the future," the Small is the New Big co-founder said.

Ugarte said his concerns were heightened last week with the entrance of Fupay into the market, which was touted as 'Australia's first responsible lending rent payment product'.

"Fupay openly encourages millennials to use it for their everyday expenses like food, rent, cash or bills – which not only highlights how much millennials are struggling to meet their primary commitments, it encourages them to use credit to meet these expenses, which is never going to end well," Ian warned.

Ian believes the proliferation of Buy Now Pay Later schemes encourage reckless spending.

He acknowledged that most people were more focused on the size of the deposit needed to secure a loan, rather than understanding that banks put an equal weighting on how they spend or save in the lead up to applying for a home loan.

"As a general rule, to assess a person's credit rating, most banks will go back through at least three months' worth of bank statements for all bank accounts a person has, although they can go back a lot further. This is so they can look at how much money is regularly going out of their accounts on discretionary items like take-away, retail products, hair and beauty treatments and, of course, to buy now pay later providers, which simply scream a warning to banks.

"Other obvious no-no's are spending on gambling sites or venues, having mobile phone debt or high limits on credit cards, but the buy now pay later is like a silent credit killer when it comes to borrowing."

According to Ugarte, the five tips that budding homeowners could do now to secure a good credit rating with the majority of lenders in the future are:

1. **Trim discretionary spending** for at least three months
2. Ensure you regularly **meet and/or exceed your credit card repayments**
3. **Eat in** (and not in the form of take away)
4. **Avoid dipping into your savings** for discretionary purchases (or worse yet, your superannuation)
5. **Consult a broker** to negotiate on your behalf when going for a home loan

"It's all about the flow of money, so how much comes in versus how much goes out, and whether what's left in the kitty is going to be enough, is what the banks are looking at," Ugarte said.

For information on how using buy now pay later facilities are breeding a new generation of long-term renters, contact Bec Derrington, 0408 062 354.

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