

CREDIT HISTORY NOW KEY ISSUE WHEN APPLYING FOR A HOME LOAN

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There has been a surge in home loan activity in recent months due to record low interest rates and very competitive house prices.

However, a growing number of Western Australians are missing out on obtaining a home loan because of a poor credit history. Many of these home loan borrowers may not even know that they have problems with their credit history.

Mortgage Solutions Australia is now finding that as a result of the world financial crisis major banks are now taking a tougher approach to home loan applicants who have an impaired credit history.

Over the past year, major financial institutions have substantially tightened their credit policies and this had included greater deposit requirements, demonstration of genuine savings and an aversion for borrowers that have credit defaults.

Credit Defaults are blemishes on a person's credit file. These credit defaults have been placed there by creditors for bills that have not been paid. These defaults stay on a client's credit history for five years after the date the default is paid.

"Generally, there could be many reasons why these bills were not paid. It could be as simple as the customer moving address, or the bill was lost in the mail. This is just some examples of many cases for a credit impairment that may not have actually been the customer's fault.

The important issue for home borrowers is that regardless of the circumstances of the credit impairment, a registered credit default is a default in the eyes of many of the lending institutions.

Before a lending institution will entertain a loan application, the default will generally have to be paid. This is regardless of whose fault it is. Some banks will allow a detailed explanation from the client stating the reasons for the default.

However, if the loan requires mortgage insurance, the loan will invariably be declined, as the mortgage insurers do not like entertaining defaults in the current credit environment.

For anyone applying for a home loan, it is therefore critical in the current financial environment to "be credit aware". You should know your credit history, and do whatever you can to avoid having defaults placed on your file.

If you would like to know your personal credit history file, this information can be obtained through www.mycreditfile.com.au.