

Don't let a bad credit score ruin your chances of a home loan

Written by Troy Gunasekera



Are you planning on entering the property market in the next 6 to 12 months, but admit that paying your everyday consumer bills on time is not your strong suit? Be warned; from early next year new credit laws may prevent you from taking advantage of one of the best growth cycles in property in the last 50 years

Troy Gunasekera, National Manager of The Property Club, Australia's largest independent property group cautions anyone who often forgets to pay consumer bills that come March 2014 banks and non-bank lenders will have access to more financial information about you than ever before.

“Anyone wanting to apply for a home loan should already be aware that when it comes to borrowing hundreds of thousands of dollars, banks do not look favourably on a poor credit record, and it's about to get even trickier with big brother looking over your shoulder for even the most minor of misdemeanours.

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Licensed credit providers will soon be able to interrogate a lot more detailed information about your credit behaviour via reviewing your Repayment History Information (RHI), which is why you must ensure your credit record is spotless. It could be the difference between securing a home loan and being turned down," Troy said.

The changes will also see positive credit reporting introduced in Australia. Currently VEDA limits data collection to negative reporting, listing only credit applications and defaults on an individual's file. From March next year, the data collected will profile a more comprehensive picture of an individual's financial situation and instances of good credit conduct will be included. VEDA will showcase this information in a credit score capped at 1,200 points.

"In the UK positive credit reporting has led to increased benefits to mortgagees with good credit conduct. Lenders not only tended to make more favourable decisions, they rewarded customers with marginally lower home loan rates," continued Troy.

While credit reporting agencies began collecting Repayment History Information in 2012, lending institutions won't have access to the new information until March year. So, follow the tips below in the next few months to improve your credit profile.

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How to improve your credit score and limit the impact of the new rules:

Pay your bills on time and in full: New comprehensive credit reporting will now profile your Repayment History Information (RHI) identifying when a bill was due, the date it was paid and if payment was made late. Making a partial payment on a contracted amount will now also be treated as a missed payment. Ensure you pay all your accounts on time, or before when you can and always pay the full amount.

Treat all credit seriously: Do not treat unsecured credit e.g. credit cards, [personal loans](#), store cards and utility bills any less diligently than secured credit like mortgagees and car loans as any overdue payment of \$100 or more may be tracked and reported on your record. While only unpaid debts greater than \$150 will be recorded as a credit default on your file, this doesn't mean you can forget about small bills. Creditors can add late payment fees and charges to take you over the \$150 threshold and this could result in a credit default.

Keep your financial applications to a minimum: The type of credit you apply for, the date the contract is entered into and terminated, the amount of credit and the terms and conditions are included on your credit file. While information isn't recorded about whether your credit applications were accepted or declined, historically financial institutions haven't looked favourably on multiple credit applications. To ensure you maintain a clean credit report, don't apply for multiple credit products at the same time, do your research diligently and make the least number of applications you can – preferably only one.

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Monitor your credit report and personal information: Making sure you keep your contact details such as home addresses up to date with creditors and financial institutions can help you to manage your report as they have a means to contact you should a situation arise. Also make sure you check your personal credit report at least once a year so you're aware of what's held on your file. Importantly, you don't need to pay to access your own information. Use the following link to make a free-of-charge application: www.mycreditfile.com.au/home/free-credit-file.dot

Protect your personal identity: Always make sure you look after your personal information carefully, especially when transacting online. The Australian Bureau of Statistics Personal Fraud Survey in 2010-11, found that Australian's had lost \$1.4 billion due to personal fraud. The likely opportunity for thieves to gain access to your personal information is when you're online. Be mindful of giving away your personal details without first checking the website you are using is secure and never respond to an email requesting your financial information. Also ensure you protect access to your personal and financial information via ensuring you create strong passwords that are different for each of your accounts.

About Property Club

Property Club helps investors on average incomes and above build property investment portfolios across Australia and New Zealand. Established in 1994, Property Club has helped

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members buy nearly \$6 billion in city property. More than 3,300 of these investors today hold property portfolios worth more than \$1m in value. Property Club offers many services free to its investors, including sourcing tenants, research and building inspections. It also holds regular property education workshops and conferences throughout Australia. To find an event near you, visit www.tic.com.au/events .