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WE Fix Credit



Is there life after default?

Despite often being wrongly listed, credit file judgments can have severe consequences for those applying for a loan. The problem comes down to Australia's credit reporting model and a 'wild west' approach to defaults by some lenders, writes John Dickinson

I am sure you all know the impact that a negative listing on a credit report can have on a borrower when applying for finance. With the tightening of credit policies, even the smallest credit issue can be the difference between an approval and decline.

What you may be surprised to learn is that a large number of defaults and judgments are listed incorrectly. By this I mean the required steps were not followed or the details of the default are not correct. The difficulty for the mortgage professional and client alike is, in the current market, most lenders' automated application systems do not account for this fact and are most likely going to decline the application regardless.

Three options for brokers

If an application is declined due to credit issues, the mortgage professional is faced with three options: explain to the client that the application was declined and walk away; try to introduce a non-bank lender where in most cases the interest rates and fees will be significantly higher; or try to escalate the matter to the lender's credit area for manual assessment.

I can sense a number of you shivering when you read this as anyone who has tried these options understands the pain and frustration they can result in. As a rule, most banks would automatically give such a matter the highest possible risk rating which means the usual supporting paperwork is replaced with the need to supply every conceivable document, making this inevitably a very time-consuming and often frustrating event for all concerned, especially when, after all this additional work, the answer from the lender is still no. The truth is, only very few applications carrying high risk ratings ever get funded.

It's frightening to think that a mistake that leads to a default can affect someone's ability to qualify for a loan

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for up to five years, even more if the listing is of a more serious nature.

Lack of positive reporting

One of the fundamental issues is the style of our credit reporting system. While the US and Europe have adopted a positive reporting system, meaning positive events such as an account being paid without incident are recorded, our system only tends to record negative events. One might suggest that a lender reviewing a credit file that showed a number of positive listings with one anomaly may have reached a different viewpoint from a lender only noting the anomaly.

Credit providers also have an obligation to make sure the correct process is followed and listings are recorded in appropriate timeframes. Some credit providers are very quick to list a default but very slow in updating the listing as paid if the account is rectified.

Little regard for consequences

While some credit providers do follow the required procedures when listing a default or judgment, others seem to think it's the 'wild west' and list defaults and so on with little regard for due process. Unfortunately, in these cases it's the consumer that really suffers.

The selling of debt to collection companies can also be a problem with regard to correct credit reporting protocol. We have seen many cases where a default has been listed many months and sometimes even years after the event. There has also been more than one occasion where the collection company had the wrong person and, after much harassment, went ahead and listed a default regardless. Clearly, this sort of behaviour is not acceptable; however, it is the consumer that loses again as their ability to raise funds could be impaired for years as a result of such actions.

Fixing the problem

If we agree that the current system is less than perfect, the next question is: What can be done about it? For the most part, many mortgage professionals and the general public have little idea where to turn when they feel they have a genuine case.

Some of you may be surprised to learn that a good percentage of genuinely contestable listings can be challenged and permanently deleted from the client's credit file – not just updated to paid or settled, but permanently deleted. This means that the client would be free to apply for credit as if the listing never existed.

I'm not talking about turning someone who is not creditworthy into a borrower. On the contrary, I am referring to genuine people that have been inappropriately treated not having to suffer for years when it comes to qualifying for finance.

Some handy tips for borrowers when it comes to avoiding credit issues are:

- Make sure the creditor is immediately informed of a change of address or contact details
- If the customer notices a direct debit has stopped but the debt still exists, don't wait to be contacted by the creditor – call first
- If there is an issue with making a payment, call the creditor immediately to discuss
- If the debt cannot be paid right away, talk to the creditor about a payment plan. If a payment plan is agreed on, make sure it is honoured
- Make sure everything is in writing

Much like mortgage broking, credit repair is not regulated and, as in the broking industry, a small group of less than ethical practitioners has drawn attention to the industry as a whole. As the brokers are soon to face strict regulations, I believe the credit repair industry should follow suit. The professionals in this area offer a valuable service to the community and have the ability to change people's lives for the better.