



# Obtaining a Mortgage with a history of 'Bad Credit'

A free E-Book by

**Phoenix Mortgage Solutions - specialists in Bad Credit mortgage loans**

**Licensed Finance Brokers No 3354**

[www.phoenixmortgages.com.au](http://www.phoenixmortgages.com.au)

Call Phoenix Mortgage Solutions on

**08 9481 7281**

## **Important Notice**

If you have a family member, friend, or business associate who you feel would benefit from this e-book, please pass it on, or alternatively you can tell them to visit our website to receive a free copy for themselves at [www.phoenixmortgages.com.au](http://www.phoenixmortgages.com.au)

Also, if you have any question or concerns, please feel to immediately email us at [admin@phoenixmortgages.com.au](mailto:admin@phoenixmortgages.com.au)

Remember, we are here to help you with any mortgage refinance or debt consolidation solution that you may require.

## Introduction

Today, around one in four Australians will have their mortgage application rejected by traditional lenders, including the main banks, building societies and credit unions.

This 'rejection' rate has been fairly consistent over the years, reflecting the rigid lending requirements of most mainstream lenders.

One major 'Risk' factor that many mainstream lenders take into consideration when assessing a mortgage application has been the 'credit rating' or credit history of the potential borrower.

Often, when a mainstream lender conducts a credit check on a mortgage applicant, if any adverse findings are found (or disclosed) the application is often declined without further reference to any other mitigating factors.

These factors can include:

- The amount of proposed borrowings relative to the value of the security offered
- The reasons presented for all defaults / writs / or arrears, both past & present
- The capacity of the borrower to service (pay for) the mortgage loan
- The 'degree' of credit default

Aside from borrowers who purposely default on their loans, (of which there are relatively few instances) most mortgage applicants can provide rational reasons for past credit defaults,

which as more often than not, are caused by 'one off' events such as:

- Temporary unemployment
- Temporary illness
- Business failure
- Marital breakdown
- Financial over commitment

In recent times, a number of 'Non Bank' lenders have developed mortgage products that take into consideration these 'one off' events and allow potential borrowers the scope to secure mortgage finance.

Phoenix Mortgage Solutions is a specialist mortgage finance intermediary that can assist borrowers who have a chequered credit history, in an effort to obtain mortgage finance on competitive terms and conditions.

For many Australians, who have a poor credit history, there is often a belief that there are no viable mortgage alternatives available to them. This couldn't be further from the truth.

This e-Book will outline some of the key factors and tips for potential borrowers who have a poor credit history and who also require mortgage finance to purchase a property or to refinance their existing loan(s).

Of course, one critical factor behind a successful application for mortgage finance is the borrower's capacity to understand the requirements of any 'alternative' mortgage product and the capability of a competent intermediary to assist clients through this maze.

Getting it right the first time will always position your 'Bad Credit' mortgage application in the best light and with the greatest opportunity to get the right outcome.

Here are our top 10 'best' tips for any mortgage applicant (Australia) to ensure they get the result they want. That is, "Approved" not "Declined".

#### Tip Number 1 - Keep paying your current mortgage / loans

On more occasions than we would like, mortgage applicants who have received a conditional mortgage loan approval believe that they have been saved from their immediate loan commitments.

Often, applicants mistakenly believe that as their new mortgage loan will eventually consolidate their debts, they may as well wait for the process to finalise, and in the meantime, forget about paying their existing commitments.

Common sense should always prevail in these circumstances, but alas, a few people believe that they are "off the hook" so to speak and decide to "stop paying".

If you do have bad credit and/or are in arrears with your creditors, the simple tip here is,

**Don't stop paying**, even if you can only make part payments to your creditors. Let them know what you are doing and keep your mortgage adviser aware of your circumstances at all times.

Tip Number 2 - Find and copy all your bank statements, evidence of income & correspondence with lenders for all current and past loan commitments.

If you are considering applying for a new mortgage loan or wish to refinance / debt consolidate your loan commitments, you should get as much information together as you possibly can.

As a potential borrower with a poor credit history, being scant on documentary evidence of income, bank statements and /or correspondence with all creditors etc, will only delay the loan process.

If you have relevant documentary evidence to support your application, get it, copy it and make sure your mortgage adviser is aware of it.

Tip Number 3. – Don't hide or purposely withhold any relevant information.

If you purposely hide any relevant information from your mortgage adviser or any potential lender during the mortgage application process, you will be found out. Simple as that!

There are numerous checks that are made by lenders, (checks that you have authorised) and if you believe that you can hide any part of a previous or current 'bad credit' experience, you are really, only fooling yourself.

Non bank lenders (and any other lender for that matter) take a dim view of an applicant(s) who don't divulge all information that is relevant to their decision making process.

If you purposely withhold information that a lender may rely on and it is identified later, you may as well kiss your application for mortgage finance goodbye there and then!

Not only will you increase your chances of **not** getting your mortgage loan application approved, but you will have signed a declaration falsely and may face more serious consequences for doing so.

Of course, if you are either unaware of a default or you have simply forgotten a particular instance of a credit default, this **may** be overlooked..

However, it is always wiser to disclose everything relevant to your mortgage loan application.

By doing so, your chances of a successful outcome are substantially increased.

To cover yourself, ask your mortgage broker about the process required to get a copy of your credit file. This will ensure no inadvertent mistakes are made with full disclosure.

[Tip Number 4 - Get professional assistance from a specialist in the 'non conforming' loans market.](#)

There are literally thousands of mortgage brokers, advisers, finance brokers, accountants, financial planners etc in Australia today offering their 'professional' services.

If you are looking for tax advice, you would probably seek the services of a tax accountant. If you're seeking advice in the area

of managed funds, you would probably find assistance from a properly qualified and licenced financial planner.

Obtaining a professional service in the 'non conforming' mortgage market is no different. Always seek the services of a 'non conforming' mortgage loan specialist.

Most mortgage brokers today are competent enough to assist borrowers with simple mortgage needs, however few specialise in the area of non conforming mortgage loans.

Even if you have substantial 'credit impairment', you should still endeavour to secure the most appropriate mortgage product available to you, rather than accept a less than satisfactory alternative.

**Tip Number 5 - Outline (preferably in writing) the reasons for all defaults / legal action & the efforts you have made to 'work with' your creditors.**

For your broker or proposed lender, having a complete history of your credit history is quite important.

By outlining the genuine reasons for your default(s), gives a lender the impression that your **intent** to repay was / is unquestioned.

If a lender recognises that you endeavoured to work with your creditors at all times and that the reasons for your credit impairment were genuine, your chances of a successful mortgage application will be enhanced substantially.

By having the reasons outlined in writing, will give your mortgage broker the opportunity to advocate clearly to any

lender, the circumstances of the credit impairment and the steps that you took to adequately address the situation.

### Tip Number 6 - Obtain a copy of your credit file

We have all heard of the term 'credit rating', however broadly speaking, this is not an entirely accurate portrayal of how your credit file is constructed. In essence, there is no rating as such, merely a detailed list of credit enquiries, defaults, legal actions etc.

In Australia, there are a number of credit reporting agencies, however there is one company that keeps records of individual's credit histories.

You may be surprised to learn that these reporting agencies do not have records of individuals who have adhered to the terms of their credit contracts; rather, the information on file generally covers off:

1. Credit enquiries
2. Credit defaults
3. Writs / summons / judgments
4. Bankruptcy / Part IX / Part X

As far a lender is concerned, a key aspect of the mortgage application process is an understanding and awareness of a credit applicant's loan history and usually an awareness of any history of credit default.

It may seem unfair, however little attention is drawn to positive loan repayment outcomes. In fact substantially more attention is focussed on the number of credit enquiries made and the extent (if any) of an applicants history of credit default or legal action.

As mentioned earlier, you are entitled to obtain a copy of your credit file, & often it is a worthwhile decision to get a copy, to know exactly what has been recorded against your name.

Depending on how quickly you need a copy of your credit file determines the cost of getting one. If you're prepared to wait a week or so, the cost is free to you if requested directly from the reporting agency, however a small fee applies if you need one urgently.

By having a copy of your credit file you can do a number of things to improve the chances of seeking mortgage finance in the future:

1. You can confidently address each default or line item to the satisfaction of a proposed new mortgage lender
2. You can identify any listing that should be contested, if you believe that it should not be on your file at all.

**Tip Number 7 - If refinancing or consolidating debts, clean up your property to get the best valuation possible!**

This is not 'rocket science'!

If your property is in a poor state, the valuation conducted by any new lender will reflect its current state of marketability; that is poorly.

By cutting the lawns, cleaning up the gardens, a trip or two to the tip with any junk that's lying around, perhaps a lick of paint and just an impression of general cleanliness should provide the best chance you can of getting a better property valuation for the lender to rely on.

Remember, a lender relies on the calibre of a property to secure its interests (the loan) and if the valuation is affected by a poor cosmetic appearance, and your 'Loan to Value' ratio expressed in percentage terms is tight, you may find that there may not be enough equity to consolidate or refinance your current commitments.

Tip Number 8 - If you're a discharged bankrupt, divulge the reasons for the bankruptcy, date of discharge and whether you paid the debts out &/or complied with the trustees requests.

This is quite simple and is an extension of Tip number 5. Many Australians, who have been bankrupted, believe that even following the discharge of their bankruptcy, they would be ineligible to secure mortgage finance again.

Not so!

However, and again, by having a comprehensive understanding of the circumstances of the bankruptcy, a lender will be more inclined to look favourably at a mortgage loan proposal, with an understanding of those circumstances.

Just a brief record of the dates, reasons, and conduct before, during and after the bankruptcy process will offer you a better chance of securing mortgage finance in the future.

Tip Number 9 – I'm in a Part IX or Part X arrangement, Can I still apply for a mortgage.

Short answer, Yes. Although with conditions. Depending on your personal circumstances, the payout of all current creditor's liabilities may be required first.

Depending on your financial resources the satisfaction of any Part IX or Part X arrangement in conjunction with a mortgage loan application can be facilitated.

Of course, all lenders terms & conditions, plus trustee requirements (if applicable) must be met.

### Tip Number 10 - Sometimes it's better to wait

Sometimes, it pays to wait. In some instances, a mortgage applicant is really in no position to take on any further debt.

There are many reasons for this. Limited income, financial overcommitment, limited equity in a property and chronic payment default are just a few reasons.

If anything, by seeking the services of an insolvency expert or a financial counsellor, a client may well address their individual 'bad credit' circumstances which should address the immediate financial pressures first, rather than attempting to leap into more (or just reconfigured) debt.

**Call Phoenix Mortgage Solutions on**

**08 9481 7281**

**Licensed Finance Brokers No 3354**

# Case study

## **Adverse Credit history - home loan arrears & loan default**

Regretfully, the incidence of workplace retrenchment, particularly for the over 40's with dependant children, commitments and a mortgage is becoming more commonplace every year. A recent client of Phoenix Mortgage Solutions, found himself in this very situation during 2003.

Our client, a 46 year old Sales Manager for a manufacturing company was retrenched in mid 2003. He had worked at this firm for just 2 years, so his retrenchment package was not going to provide much in the way of financial assistance, if he was unable to obtain work within the next month or so. Unfortunately, it was enough to not be able to obtain centrelink benefits for a number of weeks. Thankfully, our client's wife was still working; however she was only earning around \$24,000 a year as a casual employee.

Our client started looking for work almost immediately and many applications for jobs were sent off to prospective employers. Over the next few weeks he managed only two job interviews from around 15 applications. Undaunted, our client was willing to try his hand at anything, so he approached numerous employment agencies and applied for positions in a range of different industries.

Even with so much effort, our client was getting no where fast, but the bills kept mounting and the mortgage still had to be paid.

Thankfully, his wife was still able to cover the mortgage payments and strict household budgeting now became the norm. But the day to day living expenses never went away, so both the Mastercard and Visa card got a hammering, so much so, that eventually, both cards maxed out, the home loan payments were getting later and later and the redundancy monies were practically spent.

However, there was a glimmer of hope! Our client was presenting himself for what he hoped would be the final interview with one prospective employer, and that very afternoon, he received a call from their HR division, congratulating him on his successful job application. That's the good news. The bad news was that our client's personal financial situation was dire. Both credit cards were in default, the home loan was two months in arrears, the telephone was going to be disconnected and a number of other bills were still unpaid.

Our client's next move was to speak with his Bank manager, in an effort to get his financial affairs back in order. With a new job secured, he thought this should be a simple matter, 'to put right', hopefully with a debt consolidation loan. You can imagine the disappointment our client experienced when the 'Bank's solution to his approach was simply, 'No'.

The Banks 'solution' was to have the arrears paid within 14 days, or legal action will commence. Basically, the bank was not interested in any debt consolidation or refinancing solution to assist these clients.

Thankfully, this client was referred to **Phoenix Mortgage Solutions** and following our initial meeting, a solution was found and 'our' client's debts were able to be consolidated (in conjunction with their home loan). Our clients have now taken the first step to secure their financial future with considerable 'peace of mind.'

Interestingly, once Phoenix was able to solve the problem, not long after the debts were refinanced, the 'Bank' approached our clients to see if they could assist with any future loan requirements. Our "incredulous" client was now in the satisfying position to respond to the "Bank" with a resounding 'No'.