Types of credit arrears and credit impairment

Credit arrears, whether paid or unpaid can seriously effect an application for a home loan or a home loan refinance. What the arrears is and how bad it is will determine what that effect will be. There are several types that range from minor to very serious arrears I have listed them along with the likely impact on an application for a home loan.

Mortgage arrears: Mortgage arrears is always a problem when it comes to a refinance as very few lenders want to take on a client who has shown a history of inconsistent payments. And don't bother with the good excuse because most of them don't care. Most lenders require the past 6 or 12 months of home loan statements prior to approving a refinance, if there are any late payments, missed payments or references to default interest or default fees, you will start to struggle. It helps if you have caught the arrears up and are currently up to date but they will still take into account that you were in arrears. If that is your only credit problem, you may still get a loan but if you could wait until you had 6 months of on time payments, that would be better. If you have to refinance, it's still possible, you choice of lenders may be limited though.

Rates Arrears: The amount of rates arrears I see on a daily basis is frightening. Rates are connected with your property and the council can and will take your property to recover them if they have to. Most councils are pretty quick to slap a judgement on you to make life more difficult as well. Just about every lender requires a copy of your current rates notice to do a refinance, they will pick up whether your rates are in arrears or not. The lenders consider your rates to be the same as any other credit and many loans are knocked back because the rates are overdue. If you can pay them and get a new rates notice issued before your refinance (provided they haven't lodged a judgement) then all should be ok. If you have to refinance anyway, you will need to talk us on 1300 139 883 about your options.

Tax Arrears: The tax department are currently trying to reel in the increasing tax liabilities owed by the community and are slapping judgements around all over the place. If you have a tax liability, mainstream lenders don't like it and almost certainly won't approve a loan to consolidate a tax debt. If you have a tax liability that hasn't yet become a judgement, you can still consolidate it into your mortgage but you will probably need to use a specialist lender.

Credit Card & personal loan arrears: In these times of high consumer debt, one of the more popular loans we do is a debt consolidation. To do this, the new lender will want up to 6 months statements on credit card and car loan statements. If these statements show irregular or missed payments or cards consistently over the limit, they are unlikely to approve the loan. With some lenders we can get around this but clear statements will give you a bigger choice of lenders. Again, if you can wait for a clean set of statements, then try, the odds are much better. Whichever situation you are in you will need to speak to us on 1300 139 883 about how we can make it work.

Body Corporate arrears: Same as rates and Tax arrears. If they're in arrears, the mainstream lenders are unlikely to do a consolidation loan to fix it, specialist lenders shouldn't have a problem consolidating them however.

Defaults: Defaults are easily lodged on your consumer credit file, show up for 5 to 7 years whether they are paid or not and most people who have one, don't even know it. The Telephone companies in particular love to lodge them whether incorrectly or not. From a credit point of view, they are not tolerated by most lenders as they are there because you have defaulted on a credit contract. If you have a default, whether paid or unpaid, you will probably struggle to get a loan. The only exception to this rule is for paid defaults under $500 which have a good excuse. There are so many of these around, usually from telephone companies, that most lenders are now ignoring them. If you have more than one, you will need a very good excuse

Judgements: Judgements are worse than defaults as they are court orders ordering you to pay a debt you have breached the terms on. They stay on your Credit file for up to 7 years whether paid or unpaid and most lenders won't lend to a person who has one unless you have a very, very good excuse. You may still be able to get a loan but you will probably have to use a specialist lender. When you do a debt consolidation to pay out an existing default or judgement, it will need to be done through a specialist lender although, if it's done correctly, we may be able to negotiate a reduced payout figure which can sometimes save you thousands of dollars.

Part 9 Debt Agreement: There is a great deal of confusion regarding part 9 debt agreements as some people who sell them don't necessarily know what they do to your lending potential and/or don't always tell you the full story. Part 9 debt agreements are part of the bankruptcy act and as such, are treated by lenders in the same way. In reality, they prevent people from going bankrupt by consolidating all debts into one payment with no interest, generally over several years until the debt is cleared (although there are a couple of ways to set them up). You probably won't be able to get a loan while under a part 9 and will find it very difficult to get a loan after a part 9 as they stay on your credit record for 7 years. If you currently have a Part 9 and can show you have paid it on time consistently, you are a chance of getting a home loan through a specialist lender, you can also re-finance yourself out of a part 9 using the equity in your home to consolidate the loans but that will also require a specialist lender.

Part 10 Debt Agreement: Is similar to a part 9 debt agreement except that it will often involve the liquidation of a business or sale of assets to recover some of the debts (again, there are a couple of possible forms). It will also be on your credit file for 7 years and will make it extremely difficult for you to get a home loan or any other sort of loan for that matter. As with a part 9, one possible solution is to refinance your house to pay out the part 10 but you will need to speak to us on 1300 139 883 to get it right.

Bankruptcy: Bankruptcy will stay on your credit file for 7 years and you can't get a loan while you are still in bankruptcy. Once you are out of bankruptcy, you can get a loan but only through a specialist lender until it is several years behind you. You can refinance yourself out of bankruptcy using the equity in your home using a specialist lender provided that there's enough equity in the hose to discharge the entire bankruptcy agreement and that the bankruptcy is discharged at settlement of the new loan.

As you can see, any bad credit is bad for your chances of getting a loan although the small number of specialist lenders gives you a chance despite having any of the problem listed above. The best solution is to stop the bad credit happening in the first place so if you are struggling to make all your payments on time do something now before it's too late. Refinancing you house and consolidating your debt is usually the best option. But if you already have bad credit and want to buy, talk to us now on 1300 139 883 to discuss your chances.

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