

WHAT DO I NEED TO KNOW ABOUT..?

Why credit is declined

Brokers must have a strong understanding why enquiries on credit reports can lead to a client having their application declined.

BY JOHN DICKINSON

In my line of work, mortgage brokers regularly contact me to ask: “My client has no defaults or judgments but they have been refused finance. What’s going on?”

In a lot of cases, the answer can be found by looking at the number of enquiries on a credit report.

Although some brokers are aware that credit enquiries can be a problem, very few seem to really know why. Having an understanding of this is very important, because the client may be highly confused and demand to know why their application has been refused. At such a time, a broker must appear to have a firm grasp of the facts if they are to retain the client.

To better understand why credit enquires can be such a problem, let’s look at the process from the client’s point of view. For the sake of this article, let’s call our consumer Joe.

Joe decides he would like a new credit card and, not knowing who has the best deal, he jumps online to see what’s on offer.

He hedges his bets to make sure he gets approval for a card. He picks out four credit cards he likes and applies for them all. After all, he doesn’t need to accept them all if they’re approved and, this way, he’s surely going to get at least one across the line.

But what was meant to be an easy

process of getting a credit card is proving difficult. Over the next few days, Joe receives knock backs from all the providers. This seems strange, because he has a good job and has never missed a payment in his life. Joe assumes the companies must be picky, so he jumps online again and makes a few more applications. What’s this? More declines? This is crazy!

Joe decides to bypass this madness and treat himself to a big flat-screen television. He chooses a beauty: 55 inches and full high-definition picture. Furthermore, the store offers credit; so he feels the purchase will be easy. Joe confidently gives his details to the store finance representative, the whole time thinking: “I can’t wait to get this TV home.” But, sure enough, his finance is declined. Has the whole world gone mad? Why won’t anyone give Joe credit?

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A lot of people are not aware that each time they apply for finance they are almost certainly going to have someone make an enquiry on their credit report. That enquiry will be recorded for five years.

While it’s true that a credit provider can’t make a credit enquiry without consent, gaining approval can be as simple as ticking a box on a website or saying “That’s fine” to a credit representative.

But why are credit enquiries that go no further a problem? Surely it’s only the enquiries that led to loans that matter? You would be forgiven for thinking so but, unfortunately, the answer is no. When a credit enquiry is made, there is only a limited amount of information on the credit report.

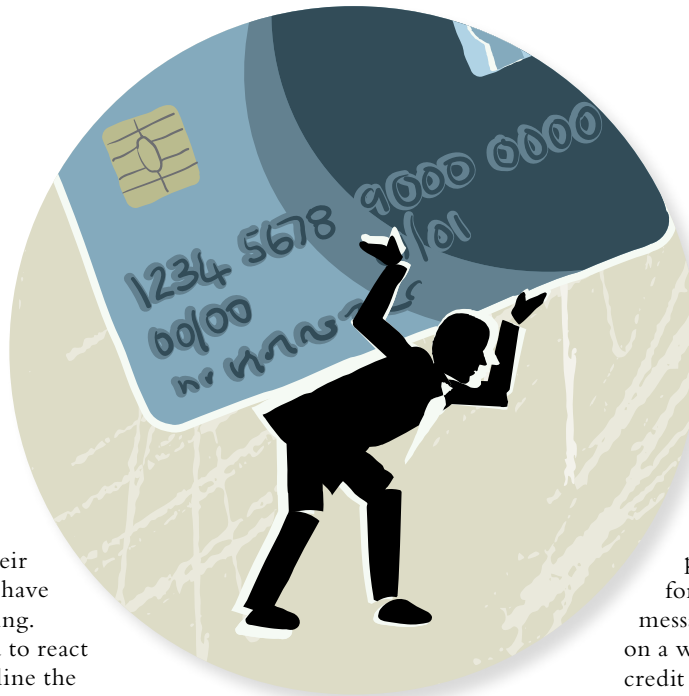
If a client makes an application for a home loan, the only information recorded is the date and type of the application (in this case, a home loan), the credit provider and the amount. The enquiry won’t say if the application was approved or declined or even if the client took up the approved facility. A credit provider looking at past enquiries is flying blind.

If you go back to Joe’s situation, the credit card provider will look at the number of recent enquiries on the report, without knowing the outcome of each. In today’s risk-averse world,

the outcome of this misinformation is often a decline. Many credit providers will assume past applications have been declined and will decline the application in turn, just to be safe.

In many cases, the consumer won't even get the opportunity to plead their case, because many lenders have fully automated credit scoring. These systems are triggered to react to recent enquiries and decline the application without looking into it further. Most of the time, there are no clearly visible notices on application forms and websites warning people that an enquiry will be noted on their credit report and the possible implications of making multiple applications.

Even if the consumer is aware an enquiry will be noted on their credit file, very few realise the potentially debilitating effects a high volume of recent enquiries can have. Often, this



only becomes apparent after the damage is done.

But how do you fix it? The answer is you can't – not in the short term at least. Unless the enquiry was made without authorisation, there is little that can be done to have an enquiry removed from a credit file. The only cure is time. The older the listing, the less relevant it is. There's no rule for how old an enquiry needs to be before it's not considered an

issue, because each lender tends to carry different lending criteria and these criteria are under constant review.

This doesn't help people who have made this mistake and desperately need finance.

Given how many people are affected by this problem, more public awareness about it is called for. Something as simple as a clear message next to the 'submit' button on a website, letting people know that a credit enquiry will be made and a high level of recent credit enquiries could result in credit issues, would be a great place to start.

Armed with this knowledge, most people would apply for credit in a more informed and responsible manner and fewer brokers would be faced with this problem. •••

John Dickinson is the Director of Clean Credit, a member of the newly launched Credit Repair Institute of Australasia.

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