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## A GUIDE TO YOUR CREDIT PROFILE

All organisations in the mortgage industry require a prospective borrower to fulfill their selection criteria before they will approve a home loan. Traditional lenders tend to have more stringent criteria, the non-conforming lenders are a lot more flexible, and the mortgage managers somewhere in between.

Before deciding to apply for a home loan, there are a number of things you can do in preparation for you meeting with your mortgage broker or lender to help then and you through each stage of the application process.

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### Know Your Finances

Know where you are now with your personal finances and have a plan for the future. Be able to show your monthly income and expenses, what savings and investments you have, any personal loans and leases, what's in the bank, on the credit card etc.

#### Tips

- Get help from an Accountant or Financial Planner.
- Use one of the inexpensive personal finance software packages available.
- Prepare a budget.

### Think Like a Lender

Put yourself in a lenders shoes and think about what information they'll be asking you, what evidence you will need to provide, what qualities they'll be seeking, and what additional information you can provide to support your loan application.

Knowing the five C's of lending can help you with this:

1. Character: stability, credit history, intention to repay the debt.
2. Capacity: can the borrower repay the loan?
3. Capital: what's the financial position of the borrower?
4. Collateral: what security is offered?
5. Commonsense: will the application and use of funds make sense to the lender?

#### Tips

- Do some research - talk to people you know who have applied for a loan and ask them about their experience, grab a book on mortgages or use the internet.
- Get hold of a loan application form or a mortgage document check list.
- Talk to Proforma Financial Solutions, as we are making applications to lenders constantly and work for you to make the loan application process as easy and timeless as possible.

### Review Your Credit Reference

Everyone in Australia who has previously had credit usually has a credit reference which is held by a company called Baycorp Advantage. It's a record of your credit history, going back five years, detailing any loan enquiries or applications you've made, if there's been a default on a credit card or loan, a bankruptcy, even if you have an outstanding bill etc.

You can purchase a copy of your credit reference from [www.mycreditfile.com.au](http://www.mycreditfile.com.au).

Lenders will look at your credit reference in the loan application process and a negative reference will affect a person's ability to borrow money.

#### Tips

- Be honest and upfront. It's best your lender or mortgage broker finds out from you, not your credit reference, if there are any problems with your credit history.
- If there has been a problem, explain why it occurred and how you rectified it.
- Don't make too many applications for finance. Each one shows up on your credit report and multiple enquiries can be equated to a problem.
- Don't have any arrears on bills, credit cards or store cards.
- If you believe there to be any discrepancies or mistakes on your credit reference you are able to challenge them.

Non Conforming lenders will consider applications from people with more serious credit issues. However, they will still expect the borrower to explain the problems that occurred and the steps taken, or being taken to correct them.

### Reduce the Plastic

When applying for a loan, lenders will want to know how many credit or store cards you currently have and what the limits are on each card – what you have the potential to spend, not what you currently owe or how good you have been at repayments.

#### Tips

- Eliminate any excess credit or store cards you have.
- Reduce the limits on the credit and store cards you use.

### Save, Save, Save

By demonstrating a good and constant savings record then you show the lender you can manage a mortgage. Generally lenders want to see a minimum of 5% saved regularly over six months or more.

#### Tip

- By being able to put down a 20% deposit on the property the borrower avoids the lender having to take out Lenders Mortgage Insurance (LMI). LMI criteria is more stringent and less flexible and the insurance company is generally not as receptive as lenders when it comes to credit problems.

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