

VIEWPOINTS

Importance of keeping a good credit record

AT a family gathering last weekend, my wife's aunt told me that her friend, Mr A has finally managed to re-finance his mortgage. However, he could not get a higher margin as originally intended.

His story started months ago, when my wife's aunt had asked for some advice on Mr A's behalf.

Mr A had wanted to re-finance his existing mortgage loan for a slightly higher loan amount and also at a lower interest rate.

It sounded like a simple case. Unfortunately, Mr A had some financial difficulties.

There was very little that I could do then, except to offer advice about financial discipline.

Mr A already had a mortgage on his owner-occupied residential property for a few years.

The global financial crisis had adversely impacted his income over the last two years.

As such, his life was getting progressively tougher as he tried to make ends meet.

However, instead of tightening



COMMENT
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his belt and cutting back on his family expenses, he continued with an affluent lifestyle.

As his savings dried up, he became slower on his mortgage repayment.

At times, he paid only one instalment after two or three months. While that should have been a clear warning to him of more financial troubles to come, he did not pay heed.

He was, at that point in time, still able to draw down on unsecured overdraft and take cash from his credit card. However, this approach was not sustainable in the long term.

He was in such a predicament for more than a year, before there was a turnaround of fortune.

He started to earn more with the economic recovery. He also started contemplating re-mortgaging his property.

After all, the value of his property would have appreciated during the recovery.

Hence he asked his bank for an additional loan. This was turned down and the banks he approached also gave him the same response "No". Puzzled, he asked for help. And this was where I came into the picture.

By the time he sought my advice through my wife's aunt, Mr A had been habitually late in his payments, and his credit card spending was at a relatively high level.

Based on the information I had heard from my aunt-in-law, I was able to tell that Mr. A's credit record would not be good.

He was unreliable in repayment, and had loans in varying stages of delinquency.

Generally, when one is late in repayment, one is considered delin-

quent. And if repayment is not made for three months, the loan can be considered as 'non-performing'.

It is now relatively easy to get the credit history of any individual through credit bureaus.

Hence, it was not surprising that Mr A did not get the approval for the re-financing of his mortgage. The banks could see that his credit history was bad.

His chances of getting a larger loan or even re-financing his current mortgage were slim because of his bad credit track record. Hence my advice to him was: be disciplined and be timely in his mortgage re-payment.

In order to do so, he needed to reduce his other credit usage such as credit cards or unsecured overdraft.

Despite a higher disposable income, it was important for Mr A to prioritise his debt repayment. It was critical for Mr A to rehabilitate his credit history.

Unfortunately, there is no quick

cure for a bad credit record. It takes monthly discipline to ensure that every loan is repaid on time. And it can take up to one year to "clean up" one's credit record.

A credit record is an indication of one's loan repayment history. And most banks (if not all), take into consideration such records in varying degrees when approving new loans.

In Mr A's case, I am glad he finally got his act together and succeeded in re-financing his loan.

So, when taking a loan, one should make it a point to adhere to its repayment terms.

Keeping a good credit record can help you secure your new loan or request for a higher loan amount.

If you have been procrastinating on any bill or debt repayment, it is time to re-look your books and set them in order before it is too late!

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