

Bad credit records the main reason for bond application rejections

Bad credit records account for 32% of bond applications being rejected by banks. What is more the banks are fairly consistent in their assessments - in more than 90% of the cases, at least three of the banks took the same stance on the rejected applications, always giving unfavourable credit records as the reason for rejection.

In an attempt to better understand the reasons why South Africa's banks across the board reject a fairly highly proportion of the mortgage bond applications that are submitted to them, the Rawson Property Group commissioned Mike van Alphen to go through a large sample of Rawson Finance's July bond applications and analyse the ostensible reasons for their failure.

Checking in certain cases with the credit bureau, the investigation found that these failed applicants usually had two or three court judgments against them and some had had unpaid debts written off by the banks.

Non-disclosure of expenses

Another main reason for rejections had been unsatisfactory credit score cards. Every loan application is fully screened by the bank and points are allocated based on the criteria in bank's credit score card system. If an applicant does not reach a certain minimum level of points, the application will be declined. 18% of the rejected applicants were due to the client not reaching the minimum credit score.

12% of the the applicants were rejected because investigations into their financial standing showed that they either did not earn enough or, more commonly, that they had not disclosed all their expenses to the consultant. Another 12% of applicants were rejected for insufficient cash flow. Self-employed people were seen as particularly vulnerable in this respect; financial accounts often revealing long lag times by debtors payment defaults to them.

Establish a clean record

Poor account conduct was the reason why 11% of rejected applicants were turned down. Refer to drawer cheques, unauthorised overdrafts and arrears on loan accounts and credit cards were the main reasons for the banks' lack of trust in such applicants' financial reliability.

"The information above should be taken to heart by all individuals planning to apply for a bond," says Bill Rawson, chairman of the Rawson Property Group. "They should set about establishing clean records long before they get to looking at houses and applying for finance. South Africa's banks are efficient and their score card system, although regarded by many as inflexible and a little too conservative, has in the last two years ensured that very few dicey applicants were approved."