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One disputed bill can cost you thousands!

Like many others, a few years ago I was in dispute with *OneTel* over parts of a \$200 telephone bill. In the end I decided to pay. Why? To protect my credit file.

Your credit file is a record of your credit history. A detailed list of all the times you have defaulted on a bill or missed a loan repayment. It also records each time you have applied for credit.

Even if you have a clean bill of financial health, you still need to be careful, as even defaulting on just one bill can be very costly.

What it really costs to default on a bill

A default is when you don't pay a bill or fail to make a loan payment on time. It normally becomes official when it is more than 90 days overdue. Defaults can stay on file for five years (even if they are eventually paid) so they can haunt you for a very long time.

To see how much money a poor credit file can cost you, I rang a number of mortgage brokers. My question: how much more would a mortgage cost me if I had a poor credit record? This is a broad summary of their comments.

Number of defaults (eg: bills not paid, mortgages in arrears etc.)	Extra interest cost (note: this is only a guide, each institution varies.)
1	+0.5%
2	+0.75%
3	+1%
4	around 2%

So if I was applying for a typical \$300,000 loan, a single default (or being in arrears on my mortgage for one month) may cost me an extra 0.5% or about \$1,500 a year extra. Four or more defaults (or having been bankrupt) would have cost me between \$3,000-to-\$6,000 extra per year, on a similar loan.

How can I protect my credit file?


Do you know if your credit file is in good shape? Here are some ways to find out if your credit

record is healthy and some tips to help keep it that way:

1. *Baycorp Advantage* administers all the credit files in Australia. You can check yours out at www.mycreditfile.com.au. It costs nothing if you can wait 10 days, or else you can pay \$23 and get it within 24 hours. Follow the instructions on the website if there is any entry you don't recognise or if you want to dispute a record.
2. Each time you apply for credit, your credit file is marked with an enquiry. Get too many enquiries on file and lenders may think you are applying for multiple loans or getting in over your head. Only give your permission for a credit check once you have found the best deal.
3. Don't take the risk, pay all your bills by direct debit and time your loan repayments for a few days after your wages (or other income) hits your account. If you get in trouble always ring the lender ASAP and arrange a payment plan.
4. Subscribe to *MyCreditAlert* at www.mycreditfile.com.au to be automatically alerted when your credit file is checked, giving you time to question any suspicious transactions. This helps alert you if someone steals your identity and uses it to obtain credit.
5. Notify all your lenders and utilities when you move home, get your mail re-directed and consider *Australia Post's* service of notifying organisations for you. Check www.moving-services.com.au for details.

A final word of warning

We often don't find out the importance of keeping our credit file clean until we apply for a loan. And while it is still possible to get credit if you have made one or two mistakes, it is certainly much more costly.

The most sensible thing to do is avoid this problem, even if it means paying a bill you disagree with. As a property investor who is continually building on my portfolio, keeping my credit file healthy is just as important as finding a good investment. Without a good credit record, I might be out of business. 



Chris Gray is the author of 'Go For Your Life' - How to turn your weekdays into weekends through property investing. He is CEO of *Red*, a company that provides independent property education to individuals, staff and clients who are investing in residential property. Find out more at www.goforyourlife.com.au.