

People deferring their mortgage payments are making an unpleasant discovery: it can wreck your credit rating

Elaine Smith

When Richard Hayward made the decision to defer his mortgage payments for two months as the result of a COVID-19 job layoff, the bank assured him it wouldn't affect his credit score, but Hayward is skeptical.

"I'm pretty sure deferred mortgage payments affects your credit rating," said Hayward, a commercial diver from Pontypool, Ont. "My credit rating is really good. I know people with worse credit scores. Personally, I'm not worried, but I can sympathize with people in much more precarious situations."

Richard Moxley, author of "The Credit Game: Rules Every Canadians Must Know to Win," says that the onus is on lenders to ensure that borrowers' credit scores don't take a hit during these challenging times.

"What Canadians don't know is that a deferred payment can show up as a late payment on the Equifax and TransUnion report," Moxley reminded consumers. "The credit reporting agencies, Equifax and TransUnion, don't qualify the information they receive. The only thing that matters is how lenders' systems report deferred payments to them — as late or not."

Unfortunately, Moxley says, much of this data is generated automatically, and many of the lenders' computer systems haven't been adjusted to reflect the general availability of deferred-payment arrangements during COVID-19, despite being prompted by Equifax.

"In the event that a (lender) makes a credit relief or payment deferral program available to its consumers to opt out of making monthly payments during the pandemic, Equifax's expectation is that the (lender) would take actions on its system to ensure that it does not report any derogatory/missed payment information to the credit bureaus that is misaligned with the program it has implemented," reads the official Equifax statement.

Moxley also warns against being reassured about your credit rating by talking with a lender's customer-service representative by phone. Given the heavy volume of calls currently, many of those answering the busy bank phone lines are not lending experts, but other employees pitching in.

"Customer service reps can tell you all kinds of things about your credit score, but they're irrelevant," he said. "The only thing that matters is how the lender's system reports deferred payments to Equifax."

Douglas Hoyes, co-founder of the debt relief experts Hoyes, Michalos and Associates, agrees that it's a challenging time if you want information about extending your

mortgage or assurances about your credit rating.

“It’s tough to get a human on the phone, first of all,” Hoyes said, “and lenders aren’t prepared for this. Employees are reading off scripts and you can’t talk to someone who can actually make a decision.”

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However, Hoyes says it’s important to connect somehow.

“Be proactive, especially if you’re not getting a paycheck this week,” he said. “Don’t just let the payment bounce. Ask for a deferral. You don’t want an insufficient-funds fee added to a cheque that can’t be processed.”

Since banks may be offering deferrals a month or two at a time, Hoyes says it’s up to the borrower to ask about additional extensions.

“Lenders are in uncharted territory and there’s no system in place to remind them to follow up with you in 25 days, so do so yourself.”

Moxley advises people to consider all of their expenses and to also investigate deferrals on other payments, such as credit cards and lines of credit.

“These may not be as common, but each deferral program is up to the individual lender,” he said.

To protect your credit rating, no matter how slow lenders are to adjust their reporting systems, Moxley suggests a written confirmation is best.

“If you can get something in writing to say that the payment is deferred, not missed, that’s best,” he said. “A lot of mortgage companies are asking for a deferral request by email, so that’s documentation. If you can’t get something in writing, get the employee number and name of the customer service agent who is promising you that your credit won’t be affected and note the date and time of the conversation. Keep a record so that you can dispute any errors they make in reporting to Equifax and TransUnion.”

When it comes to protecting yourself financially, Hoyes also recommends asking your bank to stop any automatic bill payments you’ve arranged, to allow you more control over your money during the pandemic.

“For many people, it’s a case of prioritizing,” Hoyes said. “These aren’t normal times, and your hydro won’t get shut off right away. Talk to your landlord, too. If your cheque won’t clear, they can’t evict you or garnish your wages if the courts are closed.

“Don’t be afraid to stand up for yourself and work out some kind of plan. And if you negotiate deferred payments, you’re not late, so there should be no hit to your credit score.”

Back in Pontypool, Hayward, the commercial diver, says he’s looking into what economies his family can make, in addition to the mortgage deferral: dropping insurance on a vehicle he planned to sell, cancelling a plan for a cellphone that wasn’t used often.

“I just want to stem the bleeding to give me time to find more work,” he said.

— [Elaine Smith](#) is a Toronto-based writer and a freelance contributor for the Star.
Reach her at ersmithwriter@gmail.com

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