Establishing a Good Credit Rating

watching your finances to retain a credit rating

When I emigrated to Australia in 1971 life was a whole new ball game. I had to set up again, buying furniture and white goods, plus the obligatory TV (black and white in those days). I started out paying cash for everything until my brother-in-law told me that I should get at least something on credit. At first, I didn't see the sense in paying extra for interest when I didn't have to; but, he went on to say that one day I might need a loan; and establishing a credit-rating was essential. Still reluctant, the next household item I bought on HP (hire purchase). The transaction was easy; and the salesperson's attitude surprised me because he seemed a darn sight happier than times before when I'd paid cash. I guessed this was the accepted norm; but owing money to someone worried me; so I stuck to the monthly repayments for a while, making only three before paying off the balance. I did, however, see the sense in this strategy when the cheap old bomb that I'd bought to get around eventually gave up the ghost and I had to buy a decent car. By then, the cash surplus was low and it was expedient to secure a loan. That too was easy, and all thanks to having a good credit rating.

Not too many manage to go through life without having to acquire some kind of a loan. Whether it be for the car like me, or for other goods; and particularly when buying a house; the moment of truth will finally arrive. It will also herald the realisation for some that an important lesson should have been learned from the start, but wasn't. What hadn't been taken into consideration were the lengths loan societies and banks go to before they even contemplate lending money to an applicant who is deemed a poor risk. The unfortunate who is on the point of being knocked back will probably insist that they've always conducted their financial affairs properly; well, most of the time. Slipping into arrears with the rent was sorted after a couple of months, they explain; and the same with the electricity and gas bills. The additional fact that the credit-card is maxed out is, they maintain, only temporary; and they can manage the minimum payments without a problem. All the assurances and good intentions under the sun, however, won't sway the hard-nosed bankers.

Being refused a loan can seem unfair to a person who has conducted their financial matters relatively well over the years. Surely, they might believe, the odd slip up shouldn't count against them; but it does. Imagining that minor indiscretions will remain unnoticed is naive: lending institutions have ways of uncovering every single missed payment, however trivial; and all are black marks against the applicant. Circumstances that brought about these mistakes could have been medical in nature and unavoidable at the time; but the banks don't care. All they are interested in is a client's ability to pay on time every time; and if there is just a slim possibility that they might default, it's sorry, but we can't help you.

So, each aspect of financial dealings must be compatible with the budget; especially in respect to repayments. This means never slipping into arrears to avoid receiving those dreaded final notices in the mail. Bank accounts can't be allowed to go into overdraft. Credit-cards must be paid on time. And here's another thing: even if you have never missed a payment; even if you pay the card out in full each month so that you don't incur interest; simply having that card will count against you when applying for a loan. That's because prospective lenders are concerned over the actual credit limit which they consider to be an ongoing financial liability. For example: a person applying for a loan to purchase a house may need to buy extras after moving in; and if they don't have the cash, that once-empty card is bound to take a hammering. Banks can't risk that; so they always regard that $15,000 credit not merely as available, but simply money owed that will have to be paid back.

Perhaps the best way that you can guard against a poor credit rating is to be mindful of the two basics – income and expenditure. Just keeping your heads above water may not be enough. In households receiving more than one income and doing well most of the time, it is easy to become complacent. Certainly, an extra loan or two for new furniture etcetera, or upgrading the car might seem easy to cope with at the time; but what if one of the contributors to that essential finance suddenly loses his or her job; what then? That's when the reality of ill-conceived extravagance comes back to bite. And I can guarantee: although the injury sustained may be minor and heal quite quickly; the scars will remain visible to the money-lenders for a long time to come.

So, please stay safe health-wise; and always be money wise.