Credit history key to loans

Late payments on bills easy way to tank your credit score, writes **Kate McIntyre**

How to stay in financial shape

Here are a few things that may help to keep your credit score in healthy shape.

1 Check your credit score and credit report for free online.

2 Make a habit out of paying every bill on time.

3 If you think you're in danger of missing a bill, contact your provider in advance to discuss your options.

4 Avoid applying for multiple home loans and engage a mortgage broker instead.

5 Understand that taking repayment pauses will bring your credit score down.

6 Get rid of Buy-Now-Pay-Later facilities, which Andrew Rennie says reduces your credit score and affects your borrowing capacity.

Applying for a home loan? You might want to check your credit score before going ahead. Even better – check your credit history, says Canstar data insights director Sally Tindall.

While there are a range of things that ruin credit scores, poor credit conduct being a big one, lenders look much deeper than the numerical values assigned to us by credit reporting bodies when assessing the risk we pose as borrowers, Tindall says.

"A lender might look at your credit score as a quick way of checking for any red flags but, far more importantly, they will be going through your credit history line by line to see how you've managed debts in the past, along with what debts you currently have," she says.

"If you are gearing up to apply for a home loan, it's worth ordering a copy of your credit report so you can be across what the bank is going to learn about you when they inevitably go and read through your credit history."

BAD HISTORY LOWERS YOUR SCORE

When it comes to the things that actually give you a low and therefore bad credit score, poor credit history often tops the list, says mortgage broker Andrew Rennie from Helping Hand Finance.

"You might think that only being a few days late on paying your bills is no big deal and saving you money, but late payments on things like credit cards and utility bills can decrease your score," Rennie says.


SALLY TINDALL

Since a credit report looks at the previous 24 months of conduct, it often takes quite some time before a borrower's slate can be wiped clean.

"Having credit cards or personal loans in arrears also impacts credit scores, as does multiple instances of late payments of 30-plus days," he says.

"Applying for hardship or repayment holidays with lenders also brings your credit score down."

Mortgage broker Daniel O'Brien from PFS Financial Services says defaults, court judgments and bankruptcy are the worst offenders when it comes to ruining a borrower's credit score.

"Applying for short-term 'payday' loans" also has an impact, he says.

SHOPPING FOR LOANS

If you are applying for multiple home loan applications it could affect your credit report, says Tindall.

"Frequent applications can signal to lenders that you may be experiencing financial difficulties, while in other cases it might be that you're just shopping around," she says.

"Each new credit application is typically listed on your report, including the ones that are rejected. That said, the diligence of banks in the home loan assessment process means a handful of credit inquiries that can easily be explained is unlikely to trip you up."

Needing to roll over a pre-approval multiple times doesn't tend to affect a borrower's credit score, says Rennie.

"Any lenders that extend a pre-approval generally just want evidence that your financial situation hasn't changed and will generally want updated pay slips and confirmation from the borrower that their circumstances are the same before extending a pre-approval," he says.

Tindall says: "While home loan pre-approvals show up on your credit file, try not to let this stress you out too much, even if you have to roll it over for another few months because you haven't yet found the home of your dreams."

"This is quite a normal process for someone looking to buy a home, particularly in a market where stock has been in short supply. If your new bank asks, you've got a very reasonable explanation at the ready."