10 ways to a better credit rate.

Harmoney

October 2016

Credit reporting in New Zealand has changed.

Read this short guide to understand how comprehensive credit reporting will affect you when you borrow money.

This booklet explains everything you need to know about the new consumer credit ratings. It covers:

- What comprehensive credit reporting is
- How to manage your debt
- What's included in your credit report
- The benefits of comprehensive credit reporting
- Ten tips to improve your credit rating.

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Introduction: What is comprehensive credit reporting (CCR)?

There are always times when we need to borrow money — whether we're taking out a mortgage, financing a new car, applying for a credit card or a personal loan. Every time you apply for credit, one document tells your finance provider everything they need to know about your credit history — your credit report.

Under the old system, credit reporting focused only on the negative. Your lender would see how many times you've applied for credit, how many times you've defaulted on loans and any other financial problem you've had. These factors would then play a large part in their decision process.

If you'd ever struggled to manage your debts in the past, this would continue to affect you for years to come, with no way to prove that your situation has improved. The result? High interest rates, less flexible payment terms, or even being denied credit altogether.

But now, credit reports have taken a turn for the positive with comprehensive credit reporting (CCR).

Under the new system (introduced in New Zealand in 2012), lenders still see the 'negative' information in your credit history, but they also see the 'positive' information – such as how good you are at keeping up with your payments. By seeing the big picture, finance companies have a clearer understanding of what your credit history is, and what you might be like as a borrower – and can therefore offer you fairer terms.

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How to manage your debt

Very few people make it through life without being in debt at some stage. Being able to borrow money when you really need it, and paying it back when you can afford to (plus interest), means you don't have to wait years to save up for a house, a car, travel, education and everything else you can take out a loan for.

But when you get too heavily into debt, it can be a challenge to get back out again. If you're struggling to pay off your debts, this step-by-step guide may help to put you on the right track.

How much do you owe?

Before you can manage your debt, the first step is to work out exactly how much money you currently owe. This means looking over your statements and adding up all the debt from:

- personal loans
- car finance
- mortgages

- credit cards
- store cards
- student loans
- loans from friends and family.

Can you pay off your debt faster?

Now you have an idea of how large your total debt is, you should look into ways of paying it off more quickly. The longer you take to pay off a debt, the more you'll have to pay in the long term.

You can help to reduce your total debt and pay it off faster by:

- paying off the debt with the highest interest rate first,
- making larger payments every month (if this doesn't incur extra fees),
- or switching to a product or provider with a lower interest rate.

Where can you get help?

If you need professional help managing your debt, you should speak to a financial counsellor. They can offer you free advice about budgeting, legal issues and finance options that could help you.

Depending on your situation, you could also benefit from refinancing.

Debt consolidation involves rolling multiple loans and credit commitments into a single loan with a single monthly repayment. This can make your complex finances much easier to manage, and in many circumstances you could benefit from a lower interest rate or lower monthly repayment as a result.

You can also improve your chances of securing a lower interest rate on loans by improving your credit rating. Even if you currently have a bad credit history, making your loan, credit card and bill payments on time every month, without missing a single repayment for at least two years, will demonstrate to lenders that you have improved your financial management and are now less likely to default.

What are credit reports?

Credit reports are like a financial CV, showing your pattern of financial behaviour and making it easier to understand how likely (or unlikely) it is that you will default on a financial obligation.

Finance providers, property managers and utility companies may request your credit report any time you apply for a loan or tenancy, or open an account. They use information in your credit report to help them decide whether you meet their criteria and, if so, what terms they may impose on your contract with them (like an interest rate, or a bond).

How is your credit report used?

Credit reports can be sourced from any of NZ's three credit reporting bodies:

- Centrix
- Dun & Bradstreet
- Veda

Your credit report includes your personal details, credit history and other financial information that your lenders need to know when assessing your suitability for credit, such as whether any court judgements have been filed against you and if you have ever declared bankruptcy or been declared bankrupt.

All this information is used by lenders to evaluate your risk. If they see that you have a history of failing to keep up with your repayments or defaulting on loans, they may decide not to offer you credit, or only offer credit with a higher interest rate and stricter payment terms than standard terms.

With the introduction of comprehensive credit reporting, lenders now see your good credit history as well as the bad.

How does this help you?

Even if you have a bad credit history, the new system of credit reporting gives you the chance to redeem yourself.

Your comprehensive credit report still includes the ‘negative’ information, but as long as you’ve kept up with your recent payments, this ‘positive’ information will help to balance it out. With a good track record, your lenders will see that you can be relied on to keep up with your payments and are less likely to default.

What isn’t included in your credit report?

The introduction of comprehensive credit reporting in New Zealand means finance providers now have a clearer picture of your borrowing and repayment habits, but this information still has its limits. If your circumstances change for the better - like you get a higher paying job - your lenders won't be able to tell this from your credit report. The most important thing is to make sure your credit reports are as positive as possible by alwaysmaking your payments in full and on time.

You should also be aware that not all finance providers are subscribing to comprehensive credit reporting. Before you apply for a loan or credit card, you should check whether the lender will review your positive data during their assessment, and if they include this data in their own reports back to credit bureaus.

If you want to know what your lenders are seeing, you can request a copy of your own credit report from any of the reporting agencies free of charge. This also gives you the chance to address any errors in the report that could be affecting your credit. You'll need to pay a fee if you want your credit report in

less than 10 days, or if you request more than one copy per year.

What's included in your comprehensive credit report?

Your credit report is a breakdown of everything that finance providers and utility companies need to know, both to confirm your identity and to assess whether you are eligible for their services.

What 'positive' information is included?

On 1 April 2012, New Zealand's credit agencies introduced 'positive' (comprehensive) information to credit reports for the first time. This means that your credit report now includes details of your monthly payment history (up to 24 months) for all your current loans and bills, including:

- credit cards
- personal loans
- car finance
- mortgages
- hire purchases
- utilities, phone contracts and other accounts.

This table lists all the standard information that companies can find out from your comprehensive credit report, and how long these details remain on your report for.

What's included	Further information
Personal details	Your name, date of birth, gender and address history.
Account information	The status of all your current credit accounts and your recent payment history (up to 24 months). This may also include utilities.
Credit inquiries	Checks and reviews of your credit information that have been made by providers when you have applied for credit or extensions.
Payment defaults	Payments over $150 that have been overdue for more than 30 days, resulting in debt collection activity. Defaults remain on your credit report for five years.
Public notices	Notices for bankruptcy, No Asset Procedure (NAP), Summary Instalment Orders (SIO) and other publicly available information. These may remain on your credit report for up to seven years.
Insolvencies	Bankruptcy notices remain on your credit report for four years, or indefinitely in the case of multiple insolvencies.
Court judgements	Judgements for monies made by District or High Courts remain on your credit report for five years (even when paid in full).
Company affiliations	If you are registered as a director of a company by the Companies Office Register, this is also noted on your comprehensive credit report.

What does this mean for you?

Your comprehensive credit report is an accurate reflection of your borrowing and payment habits. It tells credit providers much of what they need to know when they are deciding whether to lend to you and what terms to offer.

You can improve your chances of being approved and getting a favourable interest rate by keeping your credit report as strong as possible. Even if you've had bad credit in the past, comprehensive credit reports give you the chance to improve your credit history and prove that your financial management skillset has changed for the better.

What are the benefits of comprehensive credit reporting?

By painting a more detailed picture of your credit history and borrowing habits – the good and the bad – it's clear that comprehensive credit reporting (CCR) is fairer than the old system, which focused entirely on the negative.

Why CCR is great for borrowers

CCR makes a big difference for borrowers in a range of circumstances - whether you're adversely affected by a poor credit history or simply a short one.

For those with poor histories, if offers the opportunity to demonstrate an improved track record of regular, on-time repayments, balancing out the negative with some positive behaviour.

It's great for borrowers who are new to credit because a lender can see that you've been paying your phone or utility accounts on time - even though you may not have traditional credit, like a personal loan.

Or, if you are young but have a small credit card balance, a lender will now be able to see you making repayments rather than only seeing a short credit file with a single credit enquiry on it.

How CCR works

Are you wondering how CCR applies to your situation? The following scenario should help you:

Jackie is worried about her credit history. Back in her lean student days, she missed several credit card payments and power bills. Although she paid the outstanding balances and charges as soon as possible, she later found out that her defaults had been recorded on her credit file when her application for car finance was rejected.

Today, Jackie has a comfortable income in a steady job, but that bad credit history still hangs over her head. She's ready to apply for a car loan again, as she needs the convenience and flexibility of her own transport to get to and from work more efficiently. But she keeps postponing the call, not wanting to receive bad news.

When Jackie finally plucks up the courage and speaks to Harmoney about arranging a car loan, we check her comprehensive credit report and are pleased to see that she hasn't missed a single payment on her current credit cards and utility bills over the past two years. As her past credit defaults occurred more than five years ago, we can see that her financial standing has improved and her recent record is clean.

Jackie then provides her other financial information and evidence of her income to meet Harmoney's responsible lending practices.

We're happy to approve her loan and tell her the great news.

Why Harmoney loves CCR

Harmoney was one of the first companies in New Zealand to subscribe to comprehensive credit reporting, for the benefit of both our Borrowers and our Lenders. If you maintain a good repayment history with us, and keep on top of your other credit accounts and utility bills too, you can be sure we'll notice!

Whether you're applying for a new loan or topping up an existing loan, we'll always take your positive credit history into account.

Ten tips to improve your credit rating

It's a simple formula: the higher your credit rating, the lower your risk of defaulting in the eyes of lenders (and the lower your interest rates).

Lower risk means finance companies will be happy to lend to you and offer you their very best rates. Higher risk means you'll find it more difficult to be approved for credit. Even if you are approved, you should expect unfavourable rates until your credit rating improves.

Everyone can benefit from improving their credit rating, even if you already have a good credit history. This is one area of life where you really can't have too much of a good thing, and comprehensive credit ratings have given everyone the power to change their credit for the better.

Whatever your credit report looks like, try these 10 tips to improve your credit rating, lower your percieved risk and enjoy more financial freedom:

1. Keep on top of your payments

Don't miss a single payment on your credit cards, car, house and other loans for 24 months and you'll begin to develop a spotless track record.

2. Don't forget about utilities

Depending on the credit agency, you can also be judged on your payment of utility bills, phone contracts and other accounts – so make sure these are on your side.

3. Pay by direct debit

When payments are taken from your account automatically, you won't have to worry about missing deadlines - just make sure you always have enough funds available when payments are due!

4. Use your credit cards

You might prefer to avoid paying by credit card when you have cash available, but using your credit card regularly means you'll have a proven track record of responsible borrowing – as long as you pay it off each month.

5. Don't max out your credit accounts

Just because you have credit available doesn't mean you should use all of it.

If a lender sees that you're close to the limit on one or more of your accounts, this can give the impression that you're struggling to pay them off.

6. Check your credit report

Request free copies of your credit report from all three of New Zealand's credit reporting bodies. Check through the report and deal with any mistakes or outstanding issues you've missed that could be costing you.

7. Dispute any errors

If you do notice any mistakes in your credit report, inform the credit reporting body. They will investigate the issue and remove the item from your record if the lender in question cannot provide evidence to support it.

8. Pay off your defaults

If you have defaulted on a credit card or a loan, pay it off as soon as possible. The default will still be included on your credit report for five years, but it will be indicated as paid, and looked on more favourably.

9. Contact your lenders

If you're worried that you can't make a payment, let your lender know as soon as possible. You may be able to modify your payment terms and you won't have to worry about defaulting.

10. Only borrow money when you need it

Avoid taking out a loan if there's a risk you might miss a payment during the loan term, as this will have a long-term impact on your credit rating and make it more difficult to apply for credit in the future.

Start your application, today.

Now you know how comprehensive credit reporting works in your favour, apply for a loan through Harmoney today.

We promise to take your good borrowing behaviour into account when giving you access to the fairest rates available from our lenders.

Disclaimer.

The contents of this eBook are intended to be used as a guide only. Under no circumstances does Harmoney guarantee the steps outlined in this publication will result in an improved credit rating. In order to be approved and list your loan you must meet Harmoney's credit criteria and responsible lending requirements. Subject to funding. Fees, charges, terms and conditions apply.

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