# Be smart about credit

Your credit score will have an impact on many financial decisions, including an application for a home loan. Too much debt is not a good thing, but having a mix of credit can actually count in your favour as it shows an ability to manage your finances and helps establish your credit history, says Bradd Bendall, head of sales at BetterBond.


Source: Supplied.

Here Bendall suggests five ways to manage credit to your advantage, especially if you are thinking about buying a home.

## Pay on time

Late payments are one of the most significant contributors to a low credit score. Even minor arrears can have a major impact on your credit rating and therefore your bond application, advises Bendall.

“Don’t underestimate the influence of this small detail on your eligibility for a home loan. Banks are cautious about lending to someone who has even the slightest arrears to their name when it comes to paying their monthly dues, so don’t let this trip you up.

Always ensure you make all your account payments on or before the due date,” he cautions.

## Manage your debt well

Make debt work to your advantage by having a mix of credit, such as clothing or other retail store accounts, a cell phone contract, or vehicle finance or a personal loan, but always make sure that you pay all of these on time.

"If you're careful about paying accounts timeously and covering at least the minimum amount every month, it will contribute positively to your credit rating, and help you establish a strong credit history over time," explains Bendall.

Do be careful about applying for multiple credit accounts at once, though. Each time you apply for credit, it generates a hard inquiry on your credit report, and too many inquiries within a short period can lower your credit score.

## Use credit cards, but wisely

A credit card can be another force for good if you use it with care and maintain regular monthly payments. Bendall says, "It is not only about having the credit, but how you manage it that tells the bank a lot about you and indicates how you could one day manage a home loan."

High levels of debt can negatively impact your credit score, so keep yourself in good credit standing by not maxing out all your available credit. Financial institutions consider your ratio of outstanding debt to available credit, so keep your credit utilisation low by using credit cards sparingly and, if possible, pay them off in full each month.

According to Experian, a good utilisation rate is below 30%. In other words, if you have a credit limit of R10,000 you should aim to use only R3,000.

## Know your credit score

Your credit report contains information about your credit history, including any missed payments or defaults. View your credit score online and access your credit report free of charge via various credit bureaus.

Review your credit report regularly to ensure that all information is accurate and up to date, says Bendall. You can obtain a breakdown of past and present accounts, query or clarify your information, and get advice to improve your credit score and raise your credit rating if it needs a bit of work.

"A good credit score is important for your overall financial wellbeing, not only if you want to buy a home, so it's always good to keep an eye on it, and to maintain it to the best of your ability," he says.

## Talk to the experts

BetterBond will look at your home-loan affordability by doing a health check on your finances. "We review your income and expenses to make sure you can afford all the costs that come with owning a home. BetterBond can also pre-approve you for a home loan so you know exactly what you can afford to spend," Bendall explains.

A good credit score demonstrates your financial responsibility and shows financial institutions that you are likely to repay your debt on time. This, in turn, reduces the risk for institutions, making you a more attractive candidate for a loan.