



# Credit where it's due

Emmet Pullan explains the concept of credit ratings in plain English and shows you how to keep yours intact.

With the impact of job losses, the banking crisis and the general financial uncertainty that surrounds us all at present, being educated about your credit rating is of vital importance. So how is your credit rating scored and by who?

Firstly, most of the Irish lending institutions are members of the Irish Credit Bureau (ICB). The ICB receives data from over 80 financial institutions about the performance and repayment of their borrowing customers and this electronic library is available for the members to review when they receive a new application for credit facilities. The data available will include everything from single missed payments on a credit card to Court-ordered judgement for personal loan default or repossession orders on family homes. Some of the larger high street banks will also use their own systems to score their customers.

Current account performance and previous lending repayment history are all taken into account. In many ways this type of in-house scoring will give a more accurate reading of a customer's creditworthiness but, with many people borrowing from several institutions, the banks cannot rely on their own data. They must seek verification from the Irish Credit Bureau also.

## SIMPLE SOLUTIONS

Many people have been affected by inabilities to meet loan and debt repayments and, as a result, they have fallen victim to a poor credit rating. It is what you do to rectify your arrears situation that will ultimately lead to the repairing of your credit rating with the lenders. For those with short-term difficulties, engaging your creditors before missing payments may allow interest-only periods or payment breaks to keep your repayments affordable and thereby have little or no impact to your credit rating. Remember the profile reports are based on the monthly repayment set by your lender. If it is set at zero and nothing is paid, then your rating is not affected adversely.

Use household budgeting and expenditure cut-backs to ensure you have sufficient funds to meet your loan and debt repayments. Make sure your direct debt and standing order dates are based around your income. When working on a stretched budget, having your mortgage or car loan repayment direct debit hit your account a few days before your salary can cause unnecessary financial pressures. Most lenders can change dates to suit your requirements.

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Remember, debt collection agencies are professional organisations looking to recover an outstanding debt as quickly as possible. If you can clearly show that you have limited resources to do this, then they will factor this into any arrangement.

## FIREFIGHTING OPTIONS

For someone who has already fallen behind in payments or had loan accounts terminated, you must act efficiently to minimise the damage to your rating. The Bureau holds information on all current loans plus any discharged accounts that were active in the past five years. It could take several years after clearing all debts to have a positive rating once again, but your immediate actions could lessen the impact significantly.

Keeping detailed personal records is vital. Any engagement and willingness on your part to rectify an arrears situation or bad debt should be recorded and a history of all payments offered or made as part of reduced proposals should be maintained. When the dust settles in time to come and credit is available again, it is those people who can show clear efforts to rectify arrears and payment default that will be considered for future credit, despite an on-paper, less-than-exemplary credit rating.

Remember that credit reporting leaves out the human factor. It does not tell your potential lenders of the circumstances that led to a financial difficulty. It makes little reference to the massive efforts and sacrifices that people make to become free of debt. Your future lenders, however, will hopefully take these considerations on board when assessing a loan facility.

## GET CLEVER

Being concerned about your credit rating is smart. The availability of credit and the ability to borrow is vital for everyone at some stage in their lives. Young couples strive to own their own homes. Sole traders and small businesses need to access credit to keep

cash flows in order. A dangerous side effect of adverse credit history has been the introduction of sub-prime lending and the growth of licensed money lenders in Ireland. Customers with negative credit ratings are considered by these lenders but the cost of the credit can be a high price to pay. I recently viewed the website of a well-known regulated money lender in Ireland and the interest rate quoted was a staggering 150.3 per cent APR.

## THE LESSER OF TWO EVILS

There is also a worrying trend where people whose income levels have dropped have been overly consumed at keeping their credit rating intact – in some cases to the further detriment of their financial situation. Using revolving credit facilities such as credit cards and overdrafts to pay other forms of debt is an example.

This debt chasing method will keep your repayment profile looking positive for a while but eventually the card limits are reached or the overdraft expires. While on one hand you may still have a perfect credit rating, you will now owe a greater total sum and have even less ability to meet the contractual repayments on it.

This area requires highlighting and an alternative solution found for these consumers. I would suggest that the Irish Credit Bureau reporting mechanism should take into account those who are making a reasonable effort to discharge their debt. Coding reduced repayment and debt management plans accordingly would provide this platform.

The power of your personal credit report cannot be underestimated. Potential lenders use it as a matter of course to help assess loan applications. It's a good idea to see what

## Did you know?

Ireland and Greece are the only two countries in the EU with no regulation for debt management. This situation is now set to be rectified with the recent announcement in the Law Reform Commission interim report. Good news for struggling borrowers who need to access professional advice and solutions.

## Ask the Expert

**Q** I have a credit card debt which I cannot pay and the company I owe is putting a lot of pressure on me to clear it. I recently came across a firm on the internet that is willing to lend me the money to clear it and I can pay them back over two years. They can call to the house every week to collect the payment. It seems like a good idea but I'm not sure what to do.

*Grainne, Co. Galway*

**A** It sounds to me like a money lending facility. Whether licenced or not, you should be very careful, Grainne. The rates charged are extremely high – sometimes in excess of 100 per cent. I would suggest trying to negotiate a reduced payment arrangement with the credit card company. They may not accept at first but you should start paying anyway. As the debt is unsecured, their options for recovery are limited if you are making a reasonable effort. Some companies will consider freezing or reducing interest if you can prove you have limited means to repay. Stay away from the money lenders at all costs. You could end up swapping bad for worse!

they see so that you can give reasonable explanations for any potential reason for decline. With this in mind you can access your personal report through the Irish Credit Bureau. There is a nominal cost of €6, but it could be well worth it.

It's easier to put out a potential fire when you know where the first flame is going to appear.