Financial fitness: Taking your credit score to the next level - top tips

By Charndré Emma Kippie , issued by Topco Media

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Your credit score impacts your entire financial future - here's what you need to consider.

The term ‘credit score’ is often met with much apprehension. We hear it all the time: You need a good credit score to qualify for loans. However, if you didn’t already know, it turns out that things are much more complex than that.

When it comes to making big purchases, like your first set of wheels or home, applying for a student loan or a credit card or even taking out a cellphone contract with a mobile service provider, you will need to have established a good credit record in order to access any of these financial facilities.

Basically, lenders need to know that you’re not a financial risk should they agree to borrow you money. The notion of ‘credit’ refers to the concept of borrowing money from a financial institution – which you are then required to pay back at a specific interest rate.

Without a credit record, you will not have a credit score, meaning there’s no means whereby a lender may be able to determine your credit risk levels and, therefore, they will not be able to consider you for loans. Having a credit score is the only way to qualify for credit, and this means applying for small loans that are easily accessible. When you are responsible about paying these loans back, you are establishing a good credit score.

Types of credit

In terms of categories of credit, there are two kinds: secured and unsecured.

1. **Secured credit:** When one borrows against an asset such as a car or home property
2. **Unsecured credit:** The likes of store cards, credit cards or personal loans

When dealing with any type of credit, you will initially need to fill out an application to the credit lender, who will then evaluate your credit positioning before making a decision on whether or not to follow through with borrowing you any amount of money.

Your credit history will also be a determining factor for the type of interest rate you'll be offered when paying back the money you borrow. Rule of thumb: The healthier your credit history, the better the interest rate you'll be offered.

Monitoring your credit score

When being evaluated, lenders will categorise you as either a 'low risk borrower' or a 'high risk borrower'. If your credit score is high, you'll be considered a low risk. However, if it's low, you'll automatically be seen as a high risk borrower, which is not ideal. Many of us are hesitant to take out loans or get credit cards because it's essentially opening doors up for debt to creep in. However, there is a difference between 'good debt' and 'bad debt'. Good debt will potentially boost your net worth and assist in improving your quality of life. Bad debt, however, occurs when we borrow money for the purpose of mere consumption or to purchase assets that depreciate at a rapid pace. How we practice good debt management ultimately depends on our individual financial circumstances and fostering a healthy relationship with money and our cash flow.

Credit bureaus assess your financial history

These factors are considered as markers of how likely you are to uphold future credit commitments and are included in your credit report:

- Personal account information
- Payment history
- Amounts owed
- Age of accounts
- Judgements and defaults
- Amount of times your credit report was requested for viewing by credit providers

Where to find your credit report

It is legally stated that all South African citizens are entitled to one free credit report, annually, that can be obtained via one of the registered credit bureaus. These include TransUnion, Compuscan, Experian and XDS. Should you wish to receive more than one credit report per year, you may get a second from any of the abovementioned credit bureaus at a minimal fee. Free credit reports are, luckily, also available from ClearScore.

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Credit score ratings

Here's how to understand your credit rating and standing with lenders:

- **Excellent credit.** These individuals have a score of 650+, making them ideal candidates to apply for credit and receive very low interest rates.
- **Very good credit.** These borrowers have a score of 600-650 and can get access to great loan programmes and offers - at a good rate.
- **Good credit.** With a score of 550-600, these individuals can receive good deals at a reasonable interest rate.
- **Sub-prime.** These candidates have a score of 490-550 and may struggle to gain access to loans, making their interest rates higher.
- **Poor credit.** Individuals in this category score 490 and below, and may not qualify for loans. Improving their credit score should be their main focus.

Tips for improving your credit score

If you're not quite happy with your current credit score or you desperately need to move from 'sub-prime' to an ideal credit candidate, there are a few steps you can take to gradually improve your credit score. Remember, your credit score is never fixed, and your score may vary depending on the many different scoring mechanisms of financial institutions.

Here are three top tips for bettering your credit score:

1. **Do not make late payments** or miss a payment. Paying on time exhibits responsible, reliable behaviour, making you a lower risk borrower to the credit bureau and financial institutions.
2. If you've taken out big loans, make sure you have **a solid repayment strategy** in place. If needed, debt consolidation services are also available to make your debt more manageable.
3. **Practice healthy spending habits** (limit this as much as possible) and take more accountability as a consumer.

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