

African Bank Ltd press release

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When and why your credit score matters

January should be filled with optimism as people commit to changes in habit and lifestyle and motivate themselves to achieve greater success in the coming year.

Ironically, January is a month of doom and gloom for many. The reality of back to school, looking for a job or paying bills can be daunting. Many people will even find themselves trying to apply for credit again to settle debts, says Neil Thompson, Head of Product and Customer Value Proposition at African Bank.

“There is a high prevalence of people applying for credit (or more credit) at the start of a new year, due to overspending during December. This is, unfortunately, the reality for thousands of South Africans right now.

“Overspending over the festive season has a ripple effect for consumers, the most common being defaulting on debt repayments. This in turn impacts your credit score, which can have long-term repercussions.”

But is it wise to apply for more credit without an understanding of what the credit bureau information is about your risk to lenders?

Thompson explains what a credit score is and why it matters.

“A credit score is basically a number. A healthy score will be a high number, while a lower number indicates that you could pose greater risk to credit providers.

“When you apply for credit, lenders will extract information from the credit bureau about your account-paying habits, how long you have had credit accounts and how many you have, outstanding debt and any action taken against you to recover debt.

“You are given points for each factor that helps credit providers predict how likely you are to repay a debt. The total points is called your credit score.

“Many people ask why knowing your credit score matters and why you should strive to improve your credit score.

“It’s simple - if you have a low score, credit providers will see you as likely to default on debt and will offer you less credit and loans and sometimes at a higher interest rate. A high score means you are less of a risk and more likely to meet your repayments. You will also pay less for the credit you are granted.”

Thompson advises to always check your credit score at least at the start of each year,

however, it's a good habit to check it more frequently. This is a simple process. African Bank, for example, offers [a free credit score report](#) to anyone - you don't have to be an African Bank customer - because we know how important this is to building financial wellness.

While landlords and service providers, like cellphone companies, do credit checks to evaluate risk, different companies have different scoring systems. When you apply for a home loan, for example, the bank may also take the deposit amount, your total debt and your income, into account.

“Consumers often make big-spending or investment decisions at the start of a year, like buying a home, and this is where the information in your credit report will serve as a guide.

“The reason it is important to know your credit score is because you may be unpleasantly surprised to find you have a low credit score when applying for a home loan, for example.

“A low credit score could alert you to the fact that you may need to challenge some of the information; perhaps there are inaccuracies you have been unaware of and which are preventing you from obtaining credit you feel you are capable of managing.”

In conclusion, Thompson says the best way to improve your credit score is to pay debts on time, bring outstanding balances down and stay clear of new debt.

“Your credit score is not just a number. It is an endorsement of you which gives guidance to credit and service providers as to how much credit to grant, at what interest rate. So, you need to know what it is and work towards improving it if necessary.”

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