

## When and why credit checks fail

“It was only a little default.” But every year some whānau can’t buy a car, take out HP, rent a whare or even sometimes get a job thanks to black marks on their credit files. Does that include your whānau?

Virtually every whānau member has a credit file held by the reference agencies Veda Advantage, Dun & Bradstreet and Centrix. The records contain information about your identity including aliases, credit applications you’ve made in the past five years (which include utilities accounts such as mobile phone and power), defaults over \$100, lost or stolen identification, court judgements, and bankruptcies. The more defaults or credit applications they see, the less desirable your whānau is as a customer.

Most defaults are for not paying bills on time. Some whānau also get them as a result of being a loan guarantor. If your whānau member defaults, you will have to pay the bill and your own credit score will be affected.

Ngāi Tahu financial adviser Paul Cootes of SHARE advises against going guarantor for others, even if they are part of the whānau and you love them. “If it does go sour and there is a default on repayments, then this (can) divide a whānau.”

Cootes says if your whānau must go guarantor, you should provide only a limited guarantee for an amount that your whānau can afford to lose. Standard forms from banks and lenders almost always include unlimited guarantees against this and all future loans.

Some clients who fail credit checks find they need whānau as guarantors to get a rental property, power or telephone connection, says Lisa Kahu, budget adviser at Te Tai o Marokura in Kaikōura. If that’s the case, at

least take the forms to a budget adviser for a read through. “Sometimes it’s hard to understand all the information in the document,” she says.

Landlords and rental agencies often do credit checks. Whānau with defaults may be turned down. In Kaikōura, for example, there are only two rental agencies, and some whānau may find it impossible to get a rental property thanks to their credit score, says Kahu. “This puts whānau into a significant position of hardship.”

Kahu encourages clients and their tamari-ki to go through the Money Minded Aotearoa course run by Ngāi Tahu or any financial literacy course, which among other things helps them understand how HPs and other loans for consumer goods such as televisions and iPhones have affected their credit scores. “Whānau need to be aware that it takes away their options,” she says.

It’s free to order a copy of your personal credit file, which enables you to double-check the information. For your Veda file, for example, the website [www.mycreditfile.co.nz](http://www.mycreditfile.co.nz) points people towards a service costing \$59.95. Right at the bottom there is a greyed-out button, for a free report.

If your credit score isn’t good, don’t despair. Defaults disappear after five years, and that can pass very quickly. It takes seven years for bankruptcy notices and credit applications to be removed.

There are companies that say they can repair your credit. They’re incredibly expensive to use and can’t guarantee success. They can charge as much as \$1,600 to remove one single default from your file, with subsequent defaults costing around \$600 each. It’s usually better to get a budget adviser to

negotiate with creditors on your behalf.

It’s worth noting that some of the information held about you by the credit reference agencies is about to change. A law was passed last year that allows the agencies to collect “positive” data such as payment histories on iwi whenua, not just “negative” data about defaults, numbers of applications made for credit, and bankruptcies.

The change will benefit whānau who have changed their ways and want to be seen as being responsible financial citizens. The amount of “positive” credit information will be limited in the short term, because it’s a big job for the banks, utilities companies, and others that provide data to change their systems.

Finally Te Puni Kōkiri and the Commission for Financial Literacy and Retirement Income are working together on an action plan to improve everyday money matters for the general Māori population. The aim is to improve levels of whānau savings, resulting in increased access to tertiary education. 

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