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Momentum pension-backed home loans member information on responsible credit usage

Here's what you need to know about responsible credit usage

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1. Borrow for today while thinking about tomorrow

Credit can be an important, enabling tool in your overall financial toolkit. Some forms of credit can really help you to achieve important personal and financial goals. A good example is a home loan, which can be an essential tool to help you to achieve your home ownership goals.

But, just like all tools, credit only works for you when you use it responsibly. While it may be tempting to get additional credit, it is very important to consider your overall credit usage and keep track of all of your financial commitments.

When thinking about debt, it helps to take a long-term view and make choices that prioritise your long-term financial wellbeing. While borrowing may seem like the right choice today, it should be made in the context of your broader financial plan. As a registered credit provider, we always encourage responsible credit usage.

2. What is your credit profile?

Well, a credit profile is an electronic record of all of your credit activities. It is influenced by your overall credit usage and the track record of your repayment behaviour on different accounts. Your overall credit usage is the total debt that you have based on the different credit facilities that you are currently using. It looks at the overall amount of debt that you have and the mix of the different types of debt.

Credit providers use your credit profile to determine the level of risk they incur in offering you credit. This can influence how easily you can access credit and your cost of credit. Some credit products offer personalised interest rates and consumers with better credit behaviour may be offered lower interest rates than those who are considered to be a higher risk.

A credit score is a summary of your credit profile compiled by a credit bureau. This rating takes into account the details of your credit profile and how it compares to other active credit consumers. The first step in understanding your credit profile is to check your credit report and your credit score regularly.

3. What is over-indebtedness?

According to the National Credit Act – section 79, over indebtedness is described as: “A consumer is over-indebted if the preponderance of available information at the time a determination is made indicates that the particular consumer is or will be unable to satisfy in a timely manner all the obligations under the credit agreements to which the consumer is a party” In other words, as a consumer, you would be classified as over-indebted if you do not have the means to meet all of your debt obligations or financial commitments at the end of each month.

4. How can you avoid over-indebtedness?

It’s simple. If you carefully manage how much credit you use and make conscious Debt Control decisions (when taking up new credit products, you can be sure to avoid over-indebtedness.

When applying for new credit, consider all of your existing commitments. Do not be tempted to understate your expenses or overstate your recurring income, as this could mean that you commit to debt repayments that exceed your available resources. If you are offered a credit product that you don’t need or if you are offered more credit than you have applied for, resist the urge to take on more debt than is necessary. Keep your long-term financial wellbeing in mind.

If you are struggling with managing debt or would like to take proactive steps to manage your finances better, you can take better control by seeking help from a financial coach, debt rehabilitation consultant or a qualified personal financial adviser.

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