Better Money Management

Being Credit Healthy

A guide to using credit effectively to support your cash flow and long-term financial wellbeing safely.

In this guide:

- What does it mean to be credit healthy?
- Different credit types
- Staying on top of your credit
- Understanding credit scores

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What does it mean to be credit healthy?

When you're working long hours and juggling all the demands that come with a busy life on and off the ward, prioritising your own financial wellbeing can be challenging. Our Better Money Management guides are here to help with the information, tools and tips you need to boost your financial wellbeing, get the most from your pay and work towards the life goals that matter most to you.

Credit is a useful tool Australians can use to manage their finances, helping us to achieve our goals sooner than we might otherwise have to wait. Unfortunately, when used incorrectly, it can create problems and leave us with additional debt to pay off.

This is why credit health – the behaviours and attitudes we harbour towards credit – is so important. By understanding the different types of credit and how to use them properly, Australians can safely use it as part of a more holistic financial tool kit without falling into a debt trap.

Good credit health encompasses a range of behaviours, including (but not limited to):

- Being selective when using credit
- Borrowing only what you can afford to pay
- Considering how your finances could change over time
- Making repayments on time
- Regularly reviewing your debt levels

Golden rule

= match the life of the loan to the life of the asset

Different credit types

On its own, credit is neither a good or a bad thing for our finances. It's how we choose to use it that makes the difference. Credit comes in several different forms, from credit cards to personal loans and even mortgages.

These different credit types can be effectively broken down into three groups:

Short-term credit

Typically paid off in under 1 year. Includes:

- Credit cards
- Buy Now Pay Later

Medium-term credit

Typically paid off between 1 and 10 years. Includes:

- Personal loans
- Vehicle finance

Long-term credit

Typically paid off in more than 10 years. Includes:

- Mortgages

Each of these three credit types have different repayment obligations and associated fees, and therefore are better suited to different types of transactions.

Consider it this way: You wouldn't try to buy a house with a credit card, nor should you need to take out a mortgage to cover your cash flow for one month. Always match the credit you use with the timeline you're working to.

Understanding the different types of credit is a good first step towards good credit health. The next step is to understand the different ways to use credit properly. Much like credit types themselves, there are three main reasons why people borrow money:

- To buy something sooner
- To invest and grow wealth
- To manage cash flow shortfalls

In many cases, these are all valid reasons to take out a line of credit. A mortgage helps you invest in your own home. Perhaps that new refrigerator you've been eyeing off is on sale, and it would be cheaper to buy it now on credit than wait until your next pay comes through.

Credit is a tool

can be useful if managed responsibly

= healthy credit habits

One of the ways people get themselves in trouble however is by using credit for the wrong reasons. Do you really need to take out a personal loan to buy concert tickets or a new outfit, for instance. You should try to only use credit for the things you need and save up for the things that you want but can live without.

Importantly, while it's okay to use credit to cover your bills when you have an unexpected cash shortfall, you shouldn't be relying on credit to cover bills regularly. Borrowing money to pay your living expenses can send you into a debt spiral.

If you're regularly turning to credit to pay your bills, you might need to consider redoing your budget. You can refer to the **Health Professionals Bank budgeting guide** on our website for more information on budgeting.

Staying on top of your credit

The key to using credit effectively is to always stay on top of how much you've borrowed, how much you owe, and when your repayments need to be made. The golden rule is to only borrow what you need and can afford to repay.

Although that might seem obvious at first, ask yourself this: Have you considered how much your repayments might increase in the future? What about your living expenses? How will changes in these two figures affect your ability to make repayments?

Tips to stay on top of your credit

- Pay down your debt quickly. For short-term credit lines, try to pay off what you owe before the interest free period ends.
- Put a cap on how much credit you use, and reduce your credit card limits if possible.
- Make your repayments on time. Try to set up automatic payments if you can, or set reminders for yourself.
- If you can't make your repayments on time, speak to your credit provider early and make arrangements for a late payment.
- Consider consolidating higher interest debt such as credit card repayments into lower interest loans to save on your interest where possible.
- Watch out for hidden fees and charges sometimes associated with rewards cards and similar programs.

Cost of credit: A quick guide

Staying on top of your repayments is crucial when using credit. Here's a few things to be mindful of when borrowing money.

- Shorter term credit typically comes with a higher interest rate
- Some credit lines, such as loans and mortgages, will charge establishment fees
- Your interest repayments may not be your only obligation to your lender. Check for ongoing fees or exit costs.

Understanding credit scores

When a credit provider is reviewing your application for a loan, mortgage, or even finance for a new mobile phone, they will review your credit report and credit score. These credit reports are kind of like the report cards you received in school, showing how much and how often you've borrowed money, and how well you paid it back.

Your credit score is a number between 0 and either 1000 or 1200 (depending on which credit agency is being used). The higher your credit score, the more likely you are to be approved for a line of credit. In some cases, a higher credit score could even mean you can borrow larger sums, or borrow at a lower rate.

What's included in a credit report:

- All loans and credit amounts you've had in the last two years
- Every credit application you've made in the last five years
- How much you've borrowed
- Your repayment records
- Any loan defaults or debt-related legal proceedings

Checking your score

Regularly reviewing your credit report is useful for a number of reasons, but has three primary benefits:

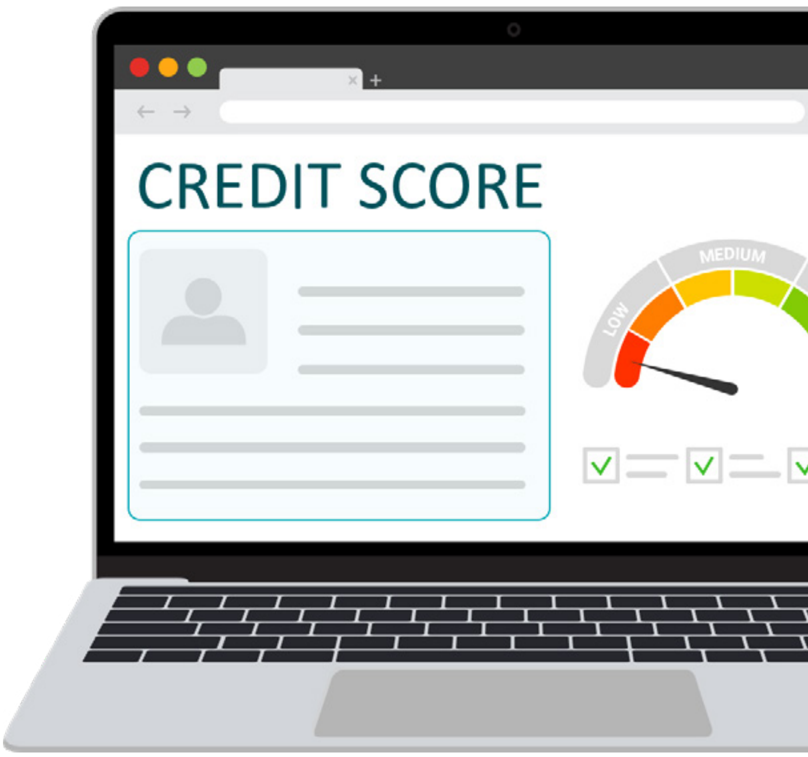
- Knowing how likely you are to be approved for new credit
- Keeping track of how much you're borrowing
- Watching for any suspicious or unauthorised transactions

You can check your credit report for free every three months from one of Australia's many credit reporting agencies – the main three being Equifax, illion, and Experian Australia.

Fixing or maintaining your score

Whether you're trying to repair a bad credit score or simply maintain a good one, there are several simple steps you can take to improve your credit health today.

- Pay down your existing debt on time
- Get rid of unused credit limits – having too much credit will hurt your credit score
- Don't make credit applications unless you plan to use them. Applying regularly for credit you don't use raises red flags for lenders.



Keeping your credit score in good shape...

- Check your report regularly
- Make sure you recognise everything
- Look for inaccuracies
- Report inaccuracies ASAP

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