

Credit Reporting Info Sheet 1 : What is credit reporting?

Credit reporting helps credit providers decide whether to lend to you

Credit reporters gather and share information about your past behaviour which helps credit providers to make future decisions

Most credit providers will check your credit report before considering your application for credit. The credit report is a significant part of the picture the credit provider builds of you and your suitability as a borrower.

The credit report is a crucial part of the credit process. It helps confirm your identity, verify your current credit obligations and is used to calculate the likelihood of you meeting your credit repayments.

Credit reports list the bad or 'negative' side of your past credit behaviour. If you fail to meet your credit obligations and the matter is sent to a debt collector this will show up as a 'default'. Arrangements to pay back defaults will be shown. If a default proceeds to a court judgment or bankruptcy this will also be recorded – and stay on the credit report for many years. If you skip out of your premises to avoid your creditors a warning notation may appear on your credit report.

Obviously this negative information makes it less likely that a future credit provider will give you credit. If they do, they may impose terms, such as a lower credit limit or higher rate of interest, to reflect the risk that you may default again.

Credit reports also record information that does not necessarily reflect badly on you - often called 'positive' information. The two main types of positive information are 'account information' and 'repayment history'.

Account information shows how much credit has been extended to you. This information enables credit providers to verify the extent of your credit obligations and ensure that new credit does not leave you over-committed and unlikely to repay all your loans.

Repayment history shows how you are managing to pay off your credit. Each month your credit report is updated to show whether you've met your repayments for each of your listed credit accounts. This will show a pattern for the past two year period of whether you are generally meeting or missing your payments. If you regularly make all your payments on time this will result in a good credit score. If you occasionally miss a deadline this will affect the score but not nearly as much as if you are regularly late in making payments.

The repayment history gives credit providers a good idea of which people are most likely to be good credit risks. For individuals who have defaulted on credit in the past, it may also provide a way for them to 'rehabilitate' themselves in the eyes of potential credit providers by showing that they can manage to make their repayments.

An individual's credit reputation is the sum of the good and bad features known about their past behaviour and current circumstances. Credit reporting makes information about patterns of past behaviour accessible to credit providers. Whether you pay your bills now will be taken into account if you seek credit in the future and may help or hinder you.

Given the importance of the information in credit reports, the Privacy Commissioner has imposed special controls to ensure credit reporters act fairly and that information in the system is reliable and used only for permitted purposes.⁽¹⁾ However, it is also important that you regularly check your own credit report⁽²⁾ and, if necessary, ask credit reporters to correct any errors on it. ⁽³⁾

(1) You can find more information on this by going to: www.privacy.org.nz and click the credit reporting button

(2) See Info Sheet 4 : Checking your credit report

(3) See Info Sheet 5 : Correcting your credit report

