Importance of Being Credit Healthy during the COVID-19 Crisis

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INTRODUCTION

The COVID-19 pandemic has been an impact on all aspects of life since its start in January 2020 and since then it has upset human life and the economy.

With the cashflow being heavily impacted in the form of layoffs and salary cuts, the demand for new credit has been on the rise and majorly in the form of unsecured loans. However, to avail these loans, having a good credit score is of utmost importance, especially during a crisis.

Apart from offering loans, banks have announced the launch of the moratorium along with various products specifically curated to help people sustain themselves during the pandemic.

IMPORTANCE OF CREDIT SCORE

The credit score of a person showcases his or her creditworthiness to the bank. If you have taken a loan or a credit card from a bank, paying back the loan in EMIs or paying your credit card dues on time and in full has a positive impact on your credit score. However, any defaults missed payments, etc. can have a negative impact on the score.

In a crisis like the COVID-19 pandemic, if there is a necessity for a personal loan or other loans, having a good credit score is the most important factor. Having a credit score above 750 is ideal and below 700 is below average. Having a high credit score can often help you get lower interest rates on your loans or can also help you choose your desired tenure and amount of the loan as well. However, having a lesser score reduces the chances of these options.

Hence, to avail any of the products launched by banks to help customers during the pandemic, your credit score must remain steady.

IMPACT OF MORATORIUM ON YOUR CREDIT SCORE

According to the Reserve Bank of India, a moratorium on EMIs and credit card balances was given to borrowers until 31 August 2020, in their last announcement. This would mean that borrowers can choose the moratorium and not pay their EMIs or credit card dues until the above-mentioned date.

However, the question comes if opting for the moratorium would affect the credit score. Choosing the moratorium will not have a direct effect on your credit score as according to the RBI directive, the deferment of payments will not be considered as defaults. Even though you will not have to pay the EMI or credit card dues, the interest accrued during the moratorium period will have to be paid after.

Hence, it is important to understand that a moratorium should be opted for only if there is an emergency and the payments cannot be made.

MAINTAINING A HEALTHY CREDIT SCORE DURING COVID-19

With the COVID-19 crisis getting bigger by the day, it is advised to maintain a healthy credit score to secure funds whenever required. To do so, here are a few ways by which you can maintain a good score:

- Keep a regular check on your credit score:

During a time where income can fluctuate due to salary cuts or layoffs or even cuts in increments, it is important to know where your credit score stands regularly. Given that your expenses will be reduced, keeping a check on your score can help avoid major discrepancies, if any.

- Paying off credit card debt:

Paying your credit card balances whenever possible is of utmost importance during a crisis. If ignored, the debt increases and so does the interest accrued on the balance which may find it hard to repay later. Any kind of late payment can affect your credit score.

- Opt for the moratorium only if necessary:

Given that the interest accrued during the moratorium period will have to be paid, you are advised to opt for the moratorium only if there is an emergency such as a halt in regular income or if there is a shortage of funds to meet essential requirements.

- Avoid withdrawing cash from a credit card:

Even though it is an option, it is advised not to resort to credit card withdrawals during this crisis as this comes with many additional charges which include cash advance fee, additional finance charges along with late payment fees as well. It also affects your credit score to an extent as repayment of the advance amount comes with a separate and higher interest rate.

- Keep the credit utilization ratio below 30%:

Banks prefer lending to borrowers who maintain a credit utilization ratio of below 30% of their credit limit.

As the COVID-19 pandemic enters into the eighth month of the year, the financial crisis along with the health crisis has been termed the worse in many years. The financial health of many has been hampered to a great extent along with any economic goals they had planned during the year. Repaying existing debt and maintaining the stability of your finances will be the key to come out of this crisis without any adverse effect on your financial health.

HOW TO IMPROVE YOUR CBIL CREDIT SCORE?

Your CBIL score or credit score is an important factor in determining whether you will be approved for a loan or not. CBIL scores are generated based on your credit history which includes past credit taken and payment patterns in relation to them. A high score represents strong creditworthiness while a low score indicates low creditworthiness. Low scores will brand you a risky borrower and lenders will be hesitant to approve your loan application.

TransUnion CBIL which is one of the credit bureaus India gives individuals and companies a credit score that ranges between 300 and 900. If your score is closer to 900, the higher the chances of loans getting approved. A score between 300 and 549 is a poor one, and any score ranging between 550 to 700 is said to be fair.

HOW TO INCREASE CBIL SCORE

Now that we know why the credit score is important, let us take a look into what you can do to increase your CBIL score. The need to increase CBIL score will arise only when your credit score is in trouble and you are planning to apply for a new loan or a credit card. If we are to assume that your score is not good then these are the things that you can do to help it improve.

1.Check Your Credit Report

Checking your Credit Reports regularly is a good idea because it will tell you two things that are absolutely critical to your credit score. The first will be the loan or credit card where the defaults or delayed payments exists that have brought down your score. The second thing it will tell you is the information that is recorded in the credit report. This helps in fixing the credit score because if you notice that there is negative information, in the form of defaults or delays in payments, mentioned on the report you can always approach the bank and CBIL to get the situation corrected.

2.Make Corrections to Errors

You should dispute all errors immediately by visiting the official website, www.CBIL.com Once you review your CBIL report, you can determine the transaction that you disagree with or identify the error. You have to act on the disputes within 30 days and rectify the same.

3.Note Your Credit Utilization Ratio

Make sure that you do not use your credit card for all transactions. Try and keep your credit utilization ratio at 30% or less. When you do this, you will see a positive impact on your CBIL score.

4.Don’t keep applying for credit if rejected

If you have applied for a loan or a credit card and your application has been rejected, the information will be recorded in your credit report. If you go and apply to another bank immediately then they will see your low score and the previous rejection and may reject your application. The best thing to do in such cases is to not apply again and wait for the score to improve.

5.Keep the frequency of applications low

One more reason why you should avoid applying for loans and credit cards too many times is that every time you apply for credit, the bank will ask CBIL for your credit report and the inquiry will be recorded in the report. The enquiry by a bank can also cause the score to come down after each request for your report. This means that you suffer two disadvantages, the first being that you display a credit hungry behaviour and the second that your score comes down even if you have every intention and capability of paying back the loan/card on time.

6.Pay your loans

If there are loans which you have been delaying the payments of then you should make it your priority to start becoming prompt with the payment. If you are struggling with the current EMI that you have to pay then you can approach your bank to help you restructure the debt to make it easier to pay.

7.Pay your credit cards on time

When it comes to credit cards, the best thing to do is to not come too close to the limit of your credit cards. You should also make sure that you are not paying back only the minimum amount due on your cards, you need to pay back the entire amount or at least a sizable amount.

8.Don’t settle loans and credit cards

Many times people choose to settle a credit card or loan. What this means is that they approach the bank and ask for a deal that will allow them to close the debt for an amount that is lower than the actual amount due. While banks do, at times, entertain such requests, the settlement does reflect on the credit report and will have a negative effect on the score or a bank's willingness to offer fresh credit.

9.Keep the borrowing to a minimum

If you are applying for too many loans or are always near the limit of your credit card then your score is likely to come down since such activities display a credit hungry behaviour. The best thing to do is not to take a loan until unless absolutely necessary and make sure you don’t come close to your credit limits on the cards.

10.Get a mixed bag of credit

When it comes to loans there are two types of loans, secured and unsecured. If you take too many unsecured loans, banks tend to see it as a undesirable and might be inclined towards declining your loans. What you can do to is to take both unsecured loans like personal loans and secured loans likes car or home loans. P.S Credit cards also counts as unsecured credit.

While it is true that a bad credit score can be harmful towards your future credit requirements, the situation is not completely beyond repair. The only thing you need to keep in mind is that it takes at least a few months for the scores to increase so you need to be fastening in for a bit of a wait before your scores start showing any improvement.

12.Opt for Various Types of Credit

Credit, if used cautiously, can be beneficial because a person who has never had any type of credit has a lower CBIL score, making it more problematic for them to receive loans. You can improve your credit history and increase CBIL score by taking up few loans that may include a mix of secured and personal loans, as well as long- and short-term loans. Taking and timely repaying these loans will improve your credit score tremendously.

WHAT IS A GOOD CREDIT SCORE?

A CBIL score ranges from 300-900, 300 being the lowest and 900 being the highest. Your CBIL score should be nearer to 900 to get the best deals on interest rates for loans. A CBIL score of 750 and above (750-900) is considered as ideal by majority of lenders like banks and non-banking finance companies (NBFCs).

CBIL score range	What does it mean for your credit health?
300-549	· Poor CBIL score
	· Irregular repayment behaviour
	· Payment defaults
	· High credit exposure
	· High risk of turning a defaulter
550-649	· Fair CBIL score
	· Late payment of credit card bills/EMIs
	· Multiple credit inquiries
650-749	· Good CBIL score
	· Responsible repayment behaviour
	· Long credit history
	· Eligible to avail loan and credit card
	· Might have to pay higher interest rate
	· Low risk of turning a defaulter
750-900	· Excellent CBIL score
	· No defaulted payments
	· Timely payment of bills
	· No unpaid dues
	· Responsible credit handling
	· Cheaper interest rates
	· High negotiation power
	· Clean credit report

CONCLUSION

CBIL also keeps a history of payment behaviours, which means that when there is a default on a payment, it is recorded in the history and when banks request for someone's history that defaulted payment is also mentioned in it.

This is not a service that has been created to ensure refusal of credit. It is a service that aims at reducing immoral credit and, as a fringe benefit, allow borrowers to instil in them certain habits that not only lead to good credit scores but also teach sound financial planning. We should remember 4 basic point for keeping Credit healthy

1. Pay all the bills on time: Never delay your credit card payments as it reflects badly on your credit score.
2. Bounce the credit limit: One of the simplest ways to boost your credit score is to appeal your credit card provider to increase your credit limit. After increasing your credit limit, you should only about 30-40% of it as it suggests you are responsible in handling your credit.
3. Do not close old accounts: When you eliminate your old account, it undesirably affects your credit score as you are deleting a good credit history. All the records of payment should be kept in your report as they help in improving your score.
4. Credit score monitoring: Scrutiny your credit score from time-to-time helps you know the state of your credit status and gives you an opportunity to work on it.

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