

Raising credit-smart kids

A parent's guide to teaching your kids how credit works, what loans really cost, and how to avoid the mistakes that catch so many young Australians.

Why it matters

Every time you apply for a home loan, car loan, credit card, phone plan or even some rentals, the lender checks your credit report. A clean file means more choice, better rates and faster approvals. A damaged one can mean a decline, or paying thousands more in interest over the life of a loan.

What's on your credit report

Credit enquiries**5 years**

Every application for credit, whether approved or not.

Repayment history**2 years**

A month-by-month record of whether you paid on time.

Credit accounts**2 years after closing**

Your cards and loans, the lender and the credit limit.

Defaults**5 years**

Debts of \$150 or more, 60+ days overdue. Paying it updates the status but doesn't remove it.

Court judgments**5 years**

When a creditor takes you to court over a debt and wins.

Hardship arrangements**12 months**

Shows you had an agreed hardship plan. It isn't used to calculate your score.

Your report also holds your name, date of birth, addresses, licence number and employer. Bankruptcies and debt agreements are listed too, for longer periods.

How your score works

Equifax**0 to 1,200 · good from 661+****Experian****0 to 1,000 · good from 600+****You have more than one credit file**

Each credit bureau keeps its own file and score, and lenders don't all use the same one. Every lender also sets its own score policy, so aim for a steady, healthy score rather than chasing the highest number.

What helps and what hurts

Helps your score

Paying on time, every month. Even the minimum repayment counts as on time.

A long, steady history. Older accounts in good standing show reliability.

Few enquiries. Applying rarely, and only when you need to.

Sensible limits. Holding only the credit you actually use.

Stable details. A consistent address and employer over time.

Hurts your score

Late or missed repayments. Each one shows on your history for 2 years.

Lots of applications close together. It can look like you're struggling for money.

Payday loans and short-term credit. Many lenders treat these as a red flag.

Defaults and court judgments. The most damaging listings, and they stay 5 years.

Ignoring an old bill. A forgotten phone or power bill can become a default.

Common myths

Myth: Checking my own report lowers my score.

Fact: Checking your own file is free and never affects your score.

Myth: Getting a new credit card builds my score.

Fact: The application adds an enquiry, which can lower it. Paying on time is what builds it.

Myth: Once I pay a default, it disappears.

Fact: It's marked as paid, but stays on your file for the full 5 years.

Myth: My partner's bad credit will show on my file.

Fact: Files are individual. Only joint accounts appear on both.

Myth: Buy now, pay later doesn't count.

Fact: Since June 2025 it's regulated credit. Applications and missed payments can show up.

Myth: My income and savings are on my report.

Fact: They're not. Lenders check those separately through your payslips and bank statements.

Applying for finance does NOT increase your score

Every application adds an enquiry, and several in a short time can cost you points. Know what you need before you apply.

EVERYDAY HABITS

8 habits that keep your file clean

- 1 Pay every bill on time.** Set up direct debits for at least the minimum. Phone, internet, power and gas providers can all list a default if a bill goes unpaid.
- 2 Only apply for what you need.** Space out your applications, and don't apply with several lenders at once to "see who says yes".
- 3 Keep credit limits low.** Lenders count the full limit, not what you owe. A \$10,000 card with nothing on it still counts as \$10,000 of debt.
- 4 Check your reports every 3 months.** It's free from each credit bureau and won't affect your score. Catch errors early.
- 5 Update your details when you move.** A final bill sent to an old address is one of the most common ways a default happens.
- 6 Close cards you don't use, properly.** Ask for written confirmation that the account is closed and the balance is \$0.
- 7 Go easy on buy now, pay later.** Several accounts add up fast, and lenders look at them on your bank statements too.
- 8 Protect your identity.** Never send ID documents to unknown contacts. If your ID is stolen, ask the credit bureaus to put a ban on your file.

CAR LOANS

How a balloon payment works

A balloon is a lump sum left owing at the end of the loan. It makes the monthly repayment smaller, but you still have to pay that lump sum in one go when the loan ends.

\$25,000 at 12% over 5 years, no balloon

\$556 a month
Nothing owing at the end
Total interest: **\$8,367**

Same loan with a 30% balloon

\$464 a month
\$7,500 due in one payment at the end
Total interest: **\$10,357**, almost \$2,000 more

The catch

After 5 years the car may be worth less than the balloon. If you can't pay it, you have to refinance it (more interest), sell the car, or risk a default. Only take a balloon if you have a real plan to pay it.

Examples only, excluding fees.

Teaching your kids about credit

At 18, your child can sign up for credit in their own name. Just because they can doesn't mean they should. The best thing you can teach them is to wait, and to understand exactly what they're signing.

WHAT WE SEE EVERY DAY

Most of the people who come to us for help are in their early 20s.

They took on a car loan, credit card, phone plan or buy now, pay later account in their late teens that they couldn't afford long term. A few missed payments became defaults, and now they're locked out of the finance they actually need.

How to explain it simply

Credit is borrowed money

It has to be paid back, plus interest. A phone on a plan is credit too.

Your report is a money report card

It records how you've handled money you borrowed. Lenders read it before they say yes.

Mistakes last for years

One unpaid bill can stay on your file for 5 years, long after it's paid.

What to talk about, and when

12+

Money basics

Saving towards a goal, needs versus wants, and how interest makes borrowed things cost more.

15+

First job, first bank account

Reading a payslip, setting a budget, and keeping their ID and banking details private.

17

Before they turn 18

How loans and interest work, what happens when a bill isn't paid, and why buy now, pay later and credit cards are traps.

18+

There's no rush

Their file usually starts the first time they apply for credit. A clean, empty file at 21 beats a damaged one. Save first, borrow later, and only what they can comfortably repay.

Myth: "You need to build a credit history to get approved"

Not true. Someone who has never had credit, with no score and no file, does NOT need one to be approved for a car or home loan. Lenders look at income, savings and bank statements. A blank file is far better than a damaged one.

Understanding what a loan really costs

Young people often only look at the weekly or monthly repayment. Teach them to look at the total.

Amount borrowed

What you actually get to spend.

Interest rate

The yearly cost of borrowing the money.

Comparison rate

The rate with most fees included. Compare this one.

Loan term

How long you'll be paying. Longer means more interest.

Fees

Set-up, monthly, late payment and early payout fees.

Total cost

Everything you'll pay back. The number that matters.

Example: a \$25,000 car loan

Rate	Term	Monthly	Interest paid	Total paid
12%	5 years	\$556	\$8,367	\$33,367
12%	7 years	\$441	\$12,071	\$37,071
18%	7 years	\$525	\$19,137	\$44,137

The lower repayment over 7 years feels cheaper, but costs \$3,704 more. At a higher rate, the car costs almost double its price. Examples only, excluding fees.

Example: a \$3,000 credit card debt

You spend \$3,000 on a credit card charging 21.99% interest, and you stop using the card. How long does it take to pay off?

You pay \$100 every month

Paid off in: **3 years 8 months**

You pay back: **\$4,394**

Interest: \$1,394

You only pay the minimum the bank asks for

Paid off in: **almost 12 years**

You pay back: **\$6,556**

Interest: \$3,556

Based on a minimum of 3% of the balance (at least \$30). The minimum shrinks as the debt drops, so more of each payment goes on interest.

The real catch: a credit card never ends

Unlike a car loan, a credit card is a revolving line of credit. There's no end date unless you cancel the card and pay it off in full. Most people keep a card for 10+ years, paying it down and spending again. Keep a \$3,000 balance for 10 years and you'll pay around **\$6,600 in interest**, and still owe the \$3,000.

Questions to ask before signing

- What's the total I'll pay back?
- Could I still pay if my hours were cut?
- What are the late and early payout fees?
- Do I need this, or can I save for it?

What happens when a debt isn't paid

This applies to loans and cards, and also to phone plans, internet, power and gas bills.

- 1 A payment is missed**
Late fees are added. On loans and cards it's marked late on their repayment history for 2 years.
- 2 Reminders and overdue notices**
The provider must warn them in writing before listing anything. Phone, internet and power can be cut off.
- 3 A default is listed**
Once \$150 or more is 60+ days overdue, it can be listed as a default for 5 years. Even a forgotten phone bill can do it.
- 4 Debt collectors**
The debt is handed to, or sold to, a collection agency. Expect calls, letters and extra costs.
- 5 Court action**
The creditor can sue. A court judgment is listed for 5 years and wages can be garnished.

What a default means for a young person

Declined for car loans, home loans and even phone plans. Pushed to lenders charging much higher interest. Paying the debt doesn't remove it: it's marked paid and stays for the full 5 years.

Two things to stay well away from

AVOID

Buy now, pay later and pay advances

Afterpay, Zip, PayPal Pay in 4, CommBank StepPay, Wagepay and similar. It's easy to stack several at once, late fees add up, and BNPL is now regulated credit that can show on their file.

NEVER

A credit card, under any circumstances

It's a revolving line of credit with no end date, usually at 20%+ interest.

How lenders actually look at them

Lenders don't go by what you owe. For a credit card they count a repayment of around 3% to 3.8% of the **full limit** every month, so a \$10,000 limit costs you \$300 to \$380 a month of borrowing power, even at \$0 owing. BNPL is counted as debt too, and lenders often make you close the accounts first. None of it looks good: regular use tells a lender you can't save and are living beyond your means.

Their first steps, done right

Share this checklist with your young adult before they sign up for anything.

- 1 Save first, borrow later.** If they can't pay for it now, ask whether they really need it now.
- 2 Buy the phone outright** or use a prepaid plan instead of a handset contract.
- 3 Never borrow "to build a score".** No credit history doesn't stop them being approved later.
- 4 Know the total cost** before signing, not just the weekly repayment.
- 5 Use a broker for a car loan,** not the first offer at the dealership.
- 6 Set up direct debits** for every bill, so a busy week never becomes a missed payment.
- 7 Keep their address up to date** when they move out or change share houses.
- 8 Check their reports** once they have any account. It's free every 3 months.

Other traps to warn them about

Payday and quick-cash loans

Very expensive, and many home loan lenders see them as a warning sign.

Bills in their name for someone else

Utilities for a share house, or a phone for a partner. If it isn't paid, it's their file that takes the hit.

Forgotten final bills

Cancelling a phone, internet or gym plan doesn't always close it. Get the final bill and confirmation in writing.

Scams asking for ID

Fake job ads and rental listings that ask for a licence or passport can be used to open credit in their name.

Lead by example

Kids copy what they see. Talk openly about your bills, your budget and the mistakes you've learned from.

Thinking of being a guarantor?

If they can't pay, you're responsible for the debt. Get independent advice before you sign.

If something goes wrong

Struggling to pay? Call before you miss a payment

Lenders must consider hardship requests. Ask for a hardship arrangement, such as a pause or lower repayments. It's noted on your file for 12 months but isn't used to calculate your score. A run of missed payments, or a default, does far more damage.

Found an error on your report?

You can ask the credit bureau or the lender to correct it, and it's free. If they won't fix it, you can lodge a free complaint with the Australian Financial Complaints Authority (AFCA).

Think your identity has been stolen?

Ask each credit bureau to put a ban on your file so no new credit can be opened. Contact IDCARE, Australia's free identity support service, and report it to police.

ALREADY HAVE A LISTING?

We can help you reclaim your future

Wipe Credit Clean reviews defaults, judgments and incorrect listings, and fights to have them removed when they shouldn't be there.

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