MONEY

A FAIR CRAIC
VIVIENNE CONNOLLY FEELS IRISH SENSE OF HUMOUR IS WORTH ITS WEIGHT IN GOLD
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Make sure you get credit where it's due

When you apply for a loan or mortgage, lenders will make a judgment based on your financial past — so watch out for those skeletons, warns *Eithne Dunne*

ROBERTO SCHMIDT

Like the figure skaters taking to the ice at the Winter Olympics, borrowers applying for loans will be judged and given a score

If you missed a payment or two on a car loan a couple of years ago but rectified the situation as soon as possible, you might think – understandably – that it would have no further bearing on your life. Look for a mortgage or loan, however, and you may discover that the oversight has more far-reaching consequences than you realised.

Whenever you apply for a loan or mortgage, your potential lender will take numerous factors into account. It will study your bank account activity for the past six months, look at unusual transactions, signs of financial pressure on the account by the end of each month and search for evidence of regular gambling.

It will also get hold of your credit record, which will give it an overview of what kind of borrower you have been for up to five years before your loan application. It will go through this information carefully.

According to Joey Sheahan, head of credit at MyMortgages.ie, lenders are "extremely picky" at the moment, but there is a small amount of wiggle room. "In most cases, if they deem that the borrower didn't engage or make an effort with the bank they had the issue with, they won't grant the loan," he says.

"However, if there were genuine circumstances, for example if someone was made redundant – or was off work due to illness and every effort was made – and the person's circumstances have improved, lenders can overlook it, but that needs to be demonstrated properly to the banks."

Steven Barrett, managing director of Bluewater Financial Planning, says banks use their discretion to some extent. "It used to be that your record had to be 100% perfect, and lenders are still strict. But say you missed one payment and you can give a good explanation as to why – you moved house, emigrated or changed bank accounts – they may overlook it. However, if you have several missed payments, the main banks won't lend to you."

Where is my credit record held?

There are two bodies holding information on your credit history. The Irish Credit Bureau (ICB) is the main credit rating agency and holds information on borrowers and their loans for up to five years after a loan is closed. This information includes your name, address, date of birth, current loans – or loans within the past five years – repayment history and details of any legal action a lender has taken against you.

As soon as you submit a loan application to a financial institution, you are giving it permission to access your credit record via the ICB. It will usually receive a credit report and a credit score. This is a number that summarises your credit report and the higher it is, the better. Your score can change over time, depending on your borrowing activities.

The relatively new Central Credit Register (CCR), which is run by the Central Bank, also holds information on consumers' credit history. Since June 30, last year, banks, credit unions and any lender providing consumer loans of €500 or more have had to submit personal and credit information on those loans to the register each month.

> **Do not take out any more loans before you get that cheque. You do not want your mortgage to fall through because of a new TV**

Credit card loans, mortgages, overdrafts and personal loans are included. From next month, this will be extended to money-lender loans, local authority loans and business loans. Other loans, such as personal contract plans and hire purchase will be added in the future, subject to a legislative amendment. Credit information includes the loan type, the amount outstanding and number of payments in arrears, if any.

How do I get a look at my record?

To look at your ICB credit report and score, download or request an application form (icb.ie). The charge is €6 per application. At the moment, consumers cannot get a report from the CCR, but, according to a spokesman, this facility is due to be introduced within the next month. Reports from the CCR will be free and details as to how to get one will be published on its website (centralcreditregister.ie). Remember that, so far, the CCR holds information dating back to the end of last June only.

Unlike the ICB, the CCR does not calculate a consumer's credit score or grade. "As well as requesting a copy of your credit report from the CCR, you will be able to place an 'explanatory statement' of up to 200 words about any of your information, or ask for information to be amended if you believe it is inaccurate, incomplete or not up to date," said the spokesman.

If you want a mortgage or loan, Barrett recommends that you get a copy of your credit report. "That way if there is an issue you can see what it is," he said. He also says errors do sometimes occur, and seeing your report will give you a chance to rectify them.

Sheahan says that, if there is inaccurate information on your report, contact the lender and advise them of it so they can rectify it. "Or, if you're unsure, at least contact the lender and ask why the information has been recorded in that way," he says.

Can I improve my credit score?

While you cannot change your credit history and score – apart from making sure the information held is accurate – you can at least ensure that it will improve over time.

"The best way to improve your credit score is to be financially organised," says Barrett. "If you consistently miss payments, banks will not consider you financially organised. So make sure there is money in your accounts when direct debits are due to go out, arrange to have them come out after pay day and, ideally, have a separate account for bills so that that money won't be touched otherwise."

Sheahan says he sees people who had a relatively small loan or credit card balance in the past, then changed address or went travelling and missed a payment or two. "They may not even have been aware of it, and may have rectified it as soon as they heard from the bank, but it is still a black mark on their credit history," he says. "So our advice is to eradicate that kind of thing. If you change address, notify lenders, and set up a direct debit to at least pay the minimum amount."

Even if you have had a loan approved, don't take any chances. "Banks do an ICB check at the beginning of the process and again just before issuing the cheque," says Barrett. "Do not take out any more loans before you get that cheque. You do not want your mortgage to fall through at the last moment because of a new TV."

Sheahan also advises that, whenever you pay off a loan or clear a credit card, make sure you get confirmation from your lender that you have done so.

Note that the ICB keeps records for only five years, so beyond that, you technically have a clean bill of health. However, if you had an issue with a particular bank, it will have that on its own records and may not lend to you again. Some lenders may lend to you if you have had a clear record for even the past two years, Sheahan says.

If you can't raise the finance you need through the main banks, and can't wait for your credit rating to come up to scratch, you may have a better chance of success with alternative mortgage lenders, such as Pepper Group (peppergroup.ie).

MARKET MOVER NIALL TRESTON

Niall Treston is a senior investment manager at Investec Wealth & Investment, which has about €63bn assets under management globally. He is also a member of Investec Wealth & Investment's management committee in Ireland.

Investment philosophy

"In its simplest form, our goal at Investec Wealth & Investec is to protect and grow our clients' capital, in that order," says Treston, *pictured*.

The vast majority of the firm's clients view their investments as "irreplaceable capital" so the priority is to avoid any permanent loss by building diversified multi-asset portfolios based on clear mandates and time frames.

"Every client has different objectives, so we don't believe in off-the-shelf solutions," he says. "Rather, we seek to build bespoke investment portfolios for each client, based on their specific requirements."

With this in mind, Investec has one of the largest research teams in Europe, focused on managing the assets of private individuals and corporates, not for profits.

Performance

According to Treston, comparing wealth managers always presents a challenge, given the "private nature of the data and differing approaches to risk classification".

"One recognised independent body, Asset Risk Consultants (ARC), has an elegant solution in its 'private client indices', based on actual, net-of-fees, submissions from wealth management firms across Europe."

One of the few Irish contributors to these indices is Investec, which, in each of ARC's categories, has outperformed peers, landing in the top quartile over the last five years.

Buying and selling

Treston says investor behaviour is possibly the single biggest risk to long-term investment performance.

"Investors tend to overreact to short-term news flow and volatility, leading to over-activity and underperformance – as can be seen with recent market volatility. Accordingly, we try to keep activity to a minimum. While there are times that short-term market fluctuations do require a response, we base most of our allocations on assessment of medium to long-term prospects."

Recently, Investec has increased its allocations to markets and sectors it views as beneficiaries of an upturn in global growth and ongoing technological disruption; examples include Japan, emerging markets and biotech.

Outlook

"We have seen media coverage regarding volatility and the recent correction. This pullback has been long overdue, given the low levels of volatility we witnessed last year."

He sees the primary catalyst behind this correction as improving global economic data, which has increased inflationary expectations and government bond yields.

"However, provided bond yields do not increase too rapidly, this is a supportive backdrop for risk assets. We have used this sell-off as an opportunity to increase our equity exposure for our clients' portfolios."

"Volatility is an unavoidable feature of investing in risk assets like stocks. Long-term investors would be better embracing volatility, rather than trying to avoid it at all costs," says Treston.

Gary Connolly

Accentuate the negative and you risk damaging your wealth

I don't often dwell upon death or its likely causes, but a publication from the Royal Statistical Society of Britain caught my eye recently.

It announced that the international statistic for 2017 was 69; the number of US citizens killed on average in lawnmower accidents each year, compared with two killed by immigrant Islamic terrorists. The article also showed that 21 Americans are killed by "armed toddlers" and 737 die annually as a result of "falling out of bed".

Originally in the Huffington Post, the 2017 statistic went viral after it was tweeted by Kim Kardashian in response to Donald Trump's proposed ban on Muslim migrants.

An unlikely ambassador for statistics maybe, but Kardashian is certainly a force in helping to bring a greater understanding of risk to a wide audience.

In terms of the numbers and the actual risks or potential harm, these statistics highlight the need to keep things in perspective.

You are more than three times as likely to die from taking a selfie than by shark attack, according to Priceonomics, but the former is not an activity we associate with danger.

This applies equally well to other domains, none more so than financial markets where the things we tend to worry about loom larger in our minds than is warranted by the chance of occurrence.

The financial media has a role to play here, as their priorities differ from investors. They don't have your profit motive in mind and don't exist to help you become better at investing. There is an understandable desire to provide lively copy, but it can mislead.

A Yale study "Crash Beliefs from Investor Surveys", assessing perceptions about likelihood of a market crash, showed investors assess the probability to be higher than the reality. On average, those polled estimated the odds of a one-day crash to be about 19%, which is wildly at odds with the actual probability (which data show to be 1%).

The study examined the role of media influence, and found that investors are prone to acting on a mental shortcut known as the "availability heuristic", to use the term coined by Nobel economics laureate Daniel Kahneman. Adverse market events made salient by financial press are associated with increased assessment of the likelihood of a crash on the part of investors. And it found these assessments had an impact on investment activity. In other words, exaggerated fear of a market crash had an impact on investment behaviour.

Research shows people give more weight to negative events. Negative experiences are more likely to be remembered and more likely to influence our evaluations, so little wonder media negativity holds greater sway than media positivity.

The availability bias in essence means that when people evaluate the odds of something happening, they tend to rely on easily recalled events. A brilliant example of this was done by Kahneman in a study on air travel.

When air travellers were asked how much they were willing to pay for life insurance for a flight covering death due to any reason, or death due to a terrorist attack (only), they gave a higher number for the latter. Death by any cause includes terrorist attack, so this makes no sense.

But it makes a lot of sense to Kahneman, who argues that we associate terrorism with fear and fear is associated with a greater willingness to pay for insurance. Kahneman reckons we have strong tendencies to miscalculate risk in predictable ways.

And when we miscalculate risks, we can behave in ways riskier than those we avoid. We worry more about risks we cannot control than those we can. For instance, we can feel more comfortable driving a car than on a plane, despite driving being more dangerous.

Consider New York in the aftermath of 9/11. Airline passenger numbers dropped as people took to their cars. German psychologist Gerd Gigerenzer estimated that an extra 1,595 Americans died in car accidents (to say nothing of injuries) in the year after the attacks – indirect victims of the tragedy.

The investment lessons that arise out of this are plentiful. Treat financial media as you might astrology; entertaining to read but potentially harmful when it comes to important decisions, such as investing. Avoid business television channels – Narcos or The Crown are fine.

The next market downturn could be significant, but no one really knows. Tread carefully but bear in mind that the denouement may loom larger in your mind than it does in reality.

Gary Connolly is MD of iCubed, an investment consulting company providing investment support to financial advisors: contact gary@icubed.ie; @gconno1.