



Understanding Your Credit Score

What is a credit rating?

A credit rating is used by businesses to work out how risky it is for them to lend you money. It's a way of predicting your future behaviour with credit.

Your credit rating is worked out using your credit report, which is put together by credit reference agencies. Credit reports are files full of financial information about you, and can include:



Outstanding
balances on credit
cards and loans



Missed payments,
arrears or defaults



Address
history



Court
records

What is a credit score?

Some credit reference agencies (CRAs) use a credit score to give a simple, numerical snapshot of your credit status. Your score is figured out using information from your credit report. However, each CRA uses a different method and will assess your credit score differently.

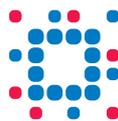
Lenders will also work out your credit score using factors that are important to them. They'll use the credit report from the CRA, but also your application form, and any previous dealings you've had with them. Again, each lender has their own method, so each will give you a different score.

What is a credit reference agency?

A credit reference agency (CRA) collects financial information about people. Information such as how many credit cards you have, if you have missed any mortgage payments etc. It uses this information to work out your credit rating (or score).

There are three credit agencies within the UK:

EQUIFAX[®]

 **Experian**SM


Callcredit

Each agency works differently, so you may have a different credit rating depending which agency you ask.

How is your credit score compiled?

Your credit score balances the information in your financial history.

The credit reference agencies each have their own methods of using this information to create your score.



POSITIVE WAYS TO IMPROVE YOUR CREDIT SCORE:

- Repaying loans on time
- Meeting monthly mortgage payments
- Keeping within your credit limits
- Registering on the electoral role



NEGATIVE WAYS TO BRING DOWN YOUR CREDIT SCORE:

- Missing loan payments
- Late mortgage payments
- Going overdrawn without approval
- Frequently applying for credit

Please note: not all CRAs get exactly the same information, or use the same methods, so you may have a different credit score depending on which agency you ask.

Why does a bad credit rating matter?

Companies (banks, utility companies, mobile phone providers etc.) use your credit score to decide whether to or not to give you credit. If you have a low credit score, you're more likely to be refused a loan, or a mobile phone contract.

Each company works differently though, so there isn't simply one magic number to aim for. However, the higher your score is, the better.

Your score also affects how much money you can borrow, and how much the lender will charge you for it. If you have a low credit score, you could pay higher interest rates.

As your score improves you become a better, safer bet. This means that your options for borrowing improve. You can borrow more, and start to pick between the better interest rates.

Having a bad credit score could mean

Having a bad credit rating could mean that you are refused loans, or financial contracts. It means that you are likely to be seen as high risk when it comes to money. Businesses need to protect their money, and they may decide that you aren't a safe person to lend it to.

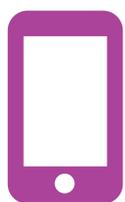
A bad credit score also brings down the amount of money that you can borrow, and puts up how much the lender will charge you for it.



Who checks my credit file & credit score?

Any business that you are applying to for financial services is likely to check your credit file and score.

If you want to borrow money, or if you are setting up regular payments for something, the lender will look into you to check how risky it might be for them. For example, you might be checked if you are applying for:



Mobile phone contract



Credit card



Car insurance



Mortgage



New bank account



Car on finance



Loan



Store Credit

What does my credit score tell me?

Your credit score tells you how lenders might view your application.

A high credit score is good. It means that you are thought of as low risk, and lenders are likely to view your application positively. A low credit score shows that you are likely to have trouble making all of your payments. You would be considered as high risk to a business.

Some credit reference agencies use a graph to show you where your score puts you. The graph is split into categories, from 'very poor' to 'excellent', so you can see at a glance where you are on the scale.

How do I get my credit reference file?

You can write to any of the credit reference agencies and ask for a copy of your file. (There is a cost of £2.) It's your right to see your file, and they cannot refuse to show it to you.

When you write to the CRAs, you should include:



- ✓ Your full name
- ✓ Any other names you been known by e.g. your maiden name
- ✓ Your address and postcode
- ✓ All other addresses you have lived at within in the last six years
- ✓ Your date of birth
- ✓ A cheque for £2 made payable to the credit reference agency

After they receive your letter, the agencies have seven working days to send you the file. (It's a good idea to send it recorded delivery, so you know exactly when they received it.) It may take more than seven days if there is missing information, or if they need proof of your address etc.

Credit reference agency addresses to write to:

EQUIFAX[®]

Equifax Ltd
Credit File Advice Centre
PO Box 1140
Bradford
BD1 5US
0844 335 0550

 **Experian**SM

Experian Ltd
Customer Support Centre
PO Box 8000
Nottingham
NG80 7WF
0844 481 8000


Callcredit

Callcredit Plc
Consumer Services Team
PO Box 491
Leeds
LS3 1WZ
0870 060 1414

Application declined?

It is always worth checking your credit report. If there is a mistake in there, you might have been declined unfairly. Find out which credit reference agency (CRA) the bank or business used, ask for a copy of your report and check it thoroughly. It's important to do this before applying anywhere else too - if there is a mistake, you're likely to be turned down again.

What should I do if my credit file is inaccurate?

The first thing to do is to contact the credit reference agency and tell them about the mistake. They will then tell you if they can fix it or not.

It might be a simple error, but be prepared as it may not be a mistake that the CRA has made. It's quite likely that they were sent the wrong information by a businesses that you have dealt with. If that's the case, you will need to go directly to that business to get it fixed.

If you still have no luck, then you could try contacting the Information Commissioner's Office:

<https://ico.org.uk/concerns/handling/>



Effects of a poor credit score

Checking and managing

Check your credit report regularly to make sure that all the information held about you is correct. If there is a mistake, it could end up with you being unfairly refused credit.

If you know what your report contains, you'll be better prepared to actively improve your score.



Having a poor credit score

Having a poor credit rating can have a big impact on every financial part of your life. A low rating almost certainly means you won't get a mortgage. If you do manage to get a credit card or loan, you'll pay high rates of interest on it. A poor rating may also mean you can't get a contracted mobile phone, or that you have to pay for insurance policies up front, rather than monthly.



Improving your credit score

Each lender is looking for different things when assessing applications for credit, but they all want to see that you can manage credit properly.

There are several ways to help with this:



Register to vote

Lenders can easily check your address and ID.



Never miss, or be late with a payment

All payments, and missed payments, are sent through to the CRAs. If you are struggling to make your payments, contact your lender immediately and try to negotiate a new payment plan.



Use a credit card, and make the payments

Financial organisations want to see that you can be trusted with credit. You can build up a positive history by using a credit card, and paying it off. (Pay it off each month to avoid paying any interest too.) Do this for at least 6 months. Also, never withdraw cash using your credit card, as this shows poor money management.



Get a credit builder card

If you can't get a regular credit card, you may be able to get a card for people with low credit ratings. This will help to build you a positive and recent credit history. Use it and pay it off in full, on a monthly basis.



Don't make a lot of applications at once

All applications for credit appear on your report. Too many at once can make you look desperate.



Joint finance, but only with the right person

If you apply for a joint account / mortgage / loan, make sure that your partner has a good credit rating. Their rating will affect yours.

Improving your credit score



Old accounts

Shut down any accounts that you no longer use.



Check your credit report

Make sure that there aren't any mistakes on your report, as these may bring down your score unfairly.



Appear stable

Lenders like stability. Get a landline at your address and use that number on your application forms. Lenders like to see long term employment, bank accounts used for years, living at the same address etc. if possible.



Be consistent

Make sure you put exactly the same information on every application that you make (e.g. phone number, moving dates, job titles etc.). Any inconsistencies may flag you up as being fraudulent.



Get a credit history

Having no credit history can have the same impact as having a bad one. If you have never had credit, lenders don't know how to judge you so they might not take the risk of lending you anything.



Don't make a lot of applications at once

All applications for credit appear on your report. Too many at once can make you look desperate.



End financial ties with people

If you have had a joint financial contract with someone, their credit rating can affect yours. If you're no longer in a relationship with them, tell the CRAs by completing a "notice of disassociation". Each CRA has a form - contact them to request one.

Myths around credit rating

MYTH

“There is a universal credit score for me”

“A rejected application harms my credit rating”

“It's just about your credit score”

“Credit ratings only affect whether I'm accepted”

FACT

You don't just have one credit score, and there is certainly no blacklist. Each lender will look at you using their own criteria. Just because you have had one rejection, it doesn't mean that you'll be rejected everywhere.

Rejected applications do not go on your report. However, if you are rejected it's important to check the information the CRAs have is correct before applying elsewhere.

Lenders take a lot more into account than just your credit score and report. They also look at your application form, and any previous dealings you've had with them.

Your credit rating also decides what type of offer you will receive. It decides how much you can borrow and what you will be charged for it - if you have a low rating, you'll be charged a lot.

Myths around credit rating

MYTH

“Credit reference agencies know everything”

“Missing an occasional credit card or mortgage payment is ok”

“Having no credit history means you’re low risk”

“I’ll never get a good credit score”

FACT

CRA's are limited to financial information only. They do not have information on:

- Declined applications
- Parking fines
- Race, religion or ethnicity
- Medical history
- Criminal records
- Student loans
- Who you live with / are married to
- Council tax arrears

Missing any payments can have a big impact on your credit rating. You need to show that you can be trusted with the lender's money.

If you can't show that you can be lent money and pay it back, then you are an unknown quantity to the lender. They may reject you for this reason.

The information held in your credit score is mainly from around the last six years. If you work to improve your rating, and start to meet all payments etc. your score will begin to improve.

Further information and advice



If you need some more guidance on your credit rating, please contact the following organisations:

- Citizen's Advice Bureau: www.citizensadvice.org.uk
- National Debtline: www.nationaldebtline.co.uk or 0808 808 4000
- Consumer Credit Counselling Service: www.cccs.co.uk or 0800 138 1111

Credit Reference Agencies:

- Equifax: www.equifax.co.uk
- Experian: www.experian.co.uk
- Callcredit: www.callcredit.co.uk

