

Keeping score



We have all heard of credit reporting, but have you heard of credit scoring?

Your credit file is one of your most important financial assets. Safeguarding this file is an important part of the finance application process.

Your credit file contains:

- credit applications, overdue credit accounts, payment defaults, clearouts (as a missing debtor), commercial credit information and public record information.

You will have a **credit score** calculated from your credit file.

Did you know that a score of less than 500 will severely affect your ability to gain finance from many lenders?

Do you even know what your score is or how easily it can be affected?

What is your credit score?

Credit scoring is a mathematical assessment of the data included in your credit report. The credit score is calculated by the credit reporting agency using a number of complex formulas. The score shows the likelihood of your defaulting on your credit payments within the next 24 months. Veda Advantage scores range from 1 to 1,200. The higher the credit score the lower the risk that you will default. A score of around 550 will indicate that you are an average risk.

Credit reporting

The credit report is the basis for your credit score. In Australia there are two main credit reporting agencies:

1. Veda Advantage, and
2. Dunn & Bradstreet

You can access a copy of your personal credit report through www.mycreditfile.com.au normally at no charge. Your credit report is very important as it provides the information used to calculate your credit score.

You will have a credit report if you have applied for any form of credit. This can include:

1. phone contracts,
2. credit cards,
3. residential or personal loans, or
4. hire purchase.

From 12 March 2014 your credit history will include information such as:

1. **Account open date and close dates**
2. **Type of credit account** such as a credit card or personal loan
3. **Credit limit.** This is the maximum amount of credit available to you for an account. Each increase to your credit limit could be included on your credit history.
4. **Monthly repayment history** on credit accounts such as mortgages and credit cards. This will reflect whether you paid the minimum amount required on your financial commitments each month on time or not.

So what affects my credit score?

The exact formula used is a closely guarded secret that not even the lenders know. What we do know is that **there are some behaviours you can control that may affect your score:**

1. any late payments,
2. overuse of credit, and
3. limiting the number of credit applications.

I didn't realise that was recorded on my credit report!

We have had clients lodge a loan application with us, only to be rejected due to a poor credit score.

When we investigated the case we found there had been multiple credit enquiries listed in a short period of time. What the clients didn't realise was that every time they were offered (and accepted) a new credit card (at their local grocery store and service station) these services were individually lodged as a credit enquiry.

Our clients had also sought pre-approval from various lenders while they were searching for a new home. These pre-approvals were also listed as a credit enquiry. When the time finally arrived to acquire their home loan, it appeared they had submitted many applications for a range of credit over a very short period. This history resulted in a low credit score and subsequent rejection by the lender.

Surely the lender can understand what really happened?

Unfortunately many major lenders are now treating credit scores as a black and white decision.

If your score is too low then the loan application will be rejected - no questions or discussion!

What should I be doing?

You need to be aware of the impending changes to the Privacy Act and how these changes potentially impact your credit score. You need to be conscious of your credit report. Make sure you meet all your credit obligations. If you are considering refinancing in the next couple of years, be aware of all agreements, pre-approvals and enquiries you make (where you sign a privacy agreement) as these will generally result in an entry on your credit report. These entries stay on your file for 5 years.

