



# Keeping Your Credit Score Healthy

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

Your comprehensive credit report is one of your most important financial assets. Safeguarding the integrity of this report is an important part of the finance application process as it contains information that will affect your ability to obtain credit or a loan.

## What is your credit score?

Credit scoring is a mathematical assessment of personal and financial data included in your credit report. Your credit score is calculated by the credit reporting agency using a number of complex formulas. Each agency adopts slightly different formulas to calculate your score. Your score will be between zero to 1,000 or 1,200. The higher your score, the better your credit rating and your being less of a risk to the lender.

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

You can retrieve your credit score free of charge within minutes from the following online providers:

- Credit Savvy
- Credit Simple
- Finder

## Comprehensive credit reporting

This report has undergone some big changes and is the basis for your credit score. In Australia there are three main credit reporting agencies:

1. Equifax
2. Check Your Credit (Illion)
3. Experian

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

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

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Your comprehensive credit report contains information on your credit products and applications, repayment history, defaults on your bills and repayments (such as loans and credit cards), debt and bankruptcy agreements and credit report requests.

Previously, credit reports displayed more negative credit behaviours, but now it also includes more positive information such as repayment history to show and illustrate your financial management.

It is important that you check that all loans and debts listed on the report actually belong to you and the personal details are correct. If there are any mistakes, contact the agency to correct any errors.

## 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 will affect your score:**

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

## Did you know that all finance applications are recorded on your 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 situation we found there had been multiple credit enquiries listed in a short period of time.

More often than not, what clients don't realise is 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.

This sequence of events resulted in a low credit score and subsequent rejection by the lender.

## Surely the lender can understand what really happened?

Unfortunately for many lenders, your credit score is a heavy influencer in determining the risk of lending money to you. However, there is good news with changes to comprehensive credit reporting now providing a clearer and fuller picture of your credit activities. Lenders are now in a much better position to see your repayment activities and if you are efficiently managing your debts.

## What should I be doing?

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.

***Making your repayments on time is key!***

