

Keeping score

Do you know your credit score?



Your credit report (also known as a credit file) is one of your most important financial assets. Safeguarding this report is an important part of the finance application process.

The Privacy Act was amended in December 2013 to allow financial institutions to share your credit liability and repayment history including whether your payments have been made on time OR NOT. All this information is held in your credit report.

Your credit report contains a history of your credit related financial information within the past five years including:

- credit enquiries/applications, monthly repayment history, overdue debts and credit accounts, payment defaults (also known as clearouts), account open and close dates, bankruptcy, court judgements and court writs, commercial credit information and public record information

Your **credit score** (sometimes referred to as a credit rating) is calculated from your credit report.

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 a 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. While the score range may vary between credit agencies as a general rule scores range from 0 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

In Australia there are two main credit reporting agencies:

1. Veda
2. Dunn & Bradstreet

Your credit report is very important as it provides the information used to calculate your credit score. You can access a copy of your personal credit report through www.mycreditfile.com.au - normally at no charge. You will have a credit report if you have applied for any form of credit. This can include:

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

So what factors affect 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 that will affect your score that YOU can control, for example:**

1. late payments
2. overuse of credit
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 preapproval from various lenders while they were searching for a new home. These preapprovals 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?

Be conscious of the importance of your credit report and make sure you meet all your credit obligations. If you are considering refinancing in the next couple of years, be aware of all agreements, preapprovals and enquiries you make (where you sign a privacy agreement) as these will generally result in an entry on your credit report where they will stay for 5 years.