

# My-Debt: Assessing Your Credit File

When applying for any form of credit such as loans, mortgages, mobile phone contracts or even monthly car insurance, lenders 'score' you to predict your likely behaviour. Scoring systems are never published and differ from lender-to-lender and also product-to-product so just because one company rejects you this doesn't automatically mean another will.

Credit scoring doesn't just dictate what products you'll receive, but also how good of a product you actually get. For example, most loan rates are 'typical', meaning the APR depends on your credit score; with credit cards if your score's too low for the deal you wanted you might still get accepted but sent a different product.

Many people still find it deeply frustrating that they get rejected. Yet as the saying sometimes goes, "it's not you, it's them". While it's crucial to check for errors and do all you can to be as attractive to a lender as possible, sometimes you just aren't what they're looking for.

## What banks know about you...

There are three prime sources of information used for scores.

### **The application form.**

Here, lenders obtain the crucial details of your postcode, salary, family size, reason for the loan and whether you're a home owner. Ensure you fill the forms in carefully.

One slight slip such as "£2,000" salary rather than "£20,000", can immediately kibosh any application and possibly future ones too.

### **Past dealings with the company.**

Companies use any previous dealings with you to help assess your behaviour, though complicated data protection rules can limit which parts of a company can communicate to each other.

### **Credit reference agency files.**

Experian, Equifax and Callcredit compile information, allowing them to send data on any UK individual to prospective lenders. All lenders use at least one agency when assessing your file. This data comes from five main sources:

- Electoral roll information. This is publicly available and contains address and who lives with whom details.
- Court records. County Court Judgments (CCJs) and Bankruptcies indicate if you have a history of debt problems.
- Search, address and linked data. This includes records of other lenders who've searched your file when you've applied for credit, addresses you're linked to or other people you have a financial association with.
- Fraud data. If you've committed a fraud (or someone has stolen your identity and committed fraud) this will be held on your file under the CIFAS section. More on that below.

# My-Debt: Assessing Your Credit File

- Account data. Banks, building societies and other organisations compile details of all your payments and transactions on credit/store cards, loans, mortgages, bank accounts and mobile phone contracts.
- In theory, they could also hold your record of paying utility bills, though few, if any do; utility firms submit the necessary data.

Around 350 million records a month are tracked including 'default data', where you're officially in default, and 'full data' which incorporates how you generally operate the account, from being the model customer to defaulting.

'Default data' has always been shared by financial companies but now 'full data' is shared too. This means each lender now has access to all information about you from other organisations.

Now the 'full data' that credit card companies share about you is increasing. From 1 December 2008, Barclaycard, Capital One, GE Money, HBOS and MBNA began sharing a lot more.

As well as your available credit, actual debts, and whether you've missed repayments, they'll also include the amount you repay (i.e. if it's the minimum, or repaying in full) and whether you've a promotional deal (plus, if you use credit card cash advances, which you NEVER EVER should).

While, overall, the aim is to stop irresponsible lending, we suspect lenders are salivating that they'll now have info to score out those customers who play the system, and constantly shift from 0% to 0% deals.

## Check your credit files

As every company uses a different credit scoring procedure, pinpointing how any given one will view you is impossible. Yet keeping an eye on your general credit healthiness is important. You've got a few options to pick from...

The building block of a credit rating is your 'statutory credit file', and you've a right under the Consumer Credit Act to see the one held by each reference agency for £2. At long last this can now be done online, much quicker than the old mail-only method. Here are the direct links...

Equifax (instant) <http://www.equifax.co.uk/Products/credit/statutory-report.html>

Experian (takes 4 days) <http://experian.co.uk/consumer/statutory-report.html>

Callcredit (instant) <http://www.callcredit.co.uk/stat-report-online/>

The statutory report contains your personal details, info on financial links to other people, whether you are on electoral roll, the credit accounts you have, any missed payments or defaults, and a list of other recent searches on your file.

## What to check on your file

Once you've got your credit files, the key is to check the accuracy of the info that banks are judging you on. As we're talking billions of pieces of data, there are always mistakes. So, quite simply...

Check **EVERYTHING!** One mistake can be a hammer-blow to credit applications.

# My-Debt: Assessing Your Credit File

Are all your debts correctly listed? Are there any inaccuracies on your repayment history?

Yet other details are important too. Check your present and past address details. Errors here can lead to you being judged on someone else's credit history. Also, your finances may be incorrectly linked with someone else's. Focus especially on any currently active accounts if they're still open, even if you haven't used them for years, it can cause problems.

## What to do if there's an error?

If you disagree with anything on your file, just write to the agency and request it's changed. If the agency agrees it should quickly change the file, though sometimes you'll need to talk to the company that originally filed the data.

Unfortunately, sometimes it may refuse to amend your file. If this happens you're entitled to add your own comments as a 'notice of correction'. This will often mean your credit applications take longer, but it may help you to obtain better deals. You can also make a complaint to the **Information Commissioner**.

Don't go on too much when explaining the error though, and don't overly berate. Be concise, explanatory and factual.

## Improve your credit score...

While it's not an exact science, there are a number of specific things you can do as good practice to improve both your credit score and lenders' attitudes towards you.

### **Get on the electoral roll.**

If you're not on the roll, it's unlikely you'll get any credit, so sign up immediately. You don't need to wait for the annual reminder, you can sign the register at any time on the About my vote website.

Simply enter your postcode to search for your local council, complete the form online then print it off, sign it, and send it back to your local electoral registration office (the address will be on the form). You can also print a blank form but either way you need to post it back as they need a copy of your signature.

For those who aren't eligible to vote (mainly foreign nationals), send all the credit reference agencies proof of residency and ask them to add a note to verify this.

### **Time applications correctly.**

Lots of credit searches (notes left on your file when you apply for things) in a short space of time hurt your score. Space out applications, not just for credit but for car insurance, mobile phones and others, as all can leave searches on your file.

Moving house also disrupts a score, so make important applications pre-moving. Plus, you'll score better when you're earning, so if you're about to take time off, go on maternity leave or suspect potential redundancy, apply beforehand - though never lie on applications, if asked.

# My-Debt: Assessing Your Credit File

## **Building a good credit history/repairing past problems.**

Credit scoring tries to predict your behavior. If you've no credit history it's more difficult for lenders to do this, so you're more likely to be rejected. Therefore, both for those with poor and no credit histories, you need to build a good one.

One of the best ways to do this is by getting the right sort of credit card. By getting any kind of credit, and operating it perfectly (i.e. never missing payments, always staying within limit), you can either build up a credit history from scratch, or remedy a tarnished one.

## **Keep up payments and never be late.**

Always try to follow at least the minimum repayment plan for your financial products. Even if you're struggling, don't default or miss payments. Doing this once or twice could cause problems that can cost you for years. Although, those in the previous 12 months will hurt you the most.

If you are in difficulties, the cliché 'contact your lender' is a good one. Hopefully, it will try and help a little. Changing your repayment schedule is preferable to you defaulting - and though it will hit your credit score, it's better than a County Court Judgment (CCJ) against you.

For repaying credit cards, the simplest method is to set up a Direct Debit to repay it each month. Then, you'll always hit the key criteria. If you have to, just do it for the minimum repayment, but then always try and pay extra by web, phone or post to get rid of the debt quicker (see the minimum repayments guide)

## **Marriage doesn't hurt, joint finances do.**

Simply marrying or living with someone with a bad credit score shouldn't impact your finances, as third-party data (i.e. someone else's info) doesn't appear on your file.

Yet if you're 'financially linked' to someone on any product, it can have an impact. Even just a joint bills account for flat sharers can mean you are co-scored. If one partner has a poor history, keep your finances rigidly separate, and it should maintain access to good credit for the other.

In fact, there are only two common products that can infer financial linking: mortgages and joint bank accounts. As a note, there's no such thing as a 'joint' credit card. Technically, it's one person's account and the other just has access to it. It is technically possible that joint utility bills could be reported on credit files, though current practice is not to do so.

If you split up with someone you've joint finances with, once the accounts are separated or no longer active, always write to the credit reference agencies and ask for a notice of 'disassociation', to stop their credit history affecting yours in future.

## **Get a 'quotation search' not a 'credit search'.**

## My-Debt: Assessing Your Credit File

If you're just trying to get a specific quote for a loan, ask the lender to do a 'quotation search' and not a 'credit search'. This means the enquiry won't have a negative impact on your credit score. Sadly, many lenders haven't yet adopted this practice, but it is worth asking. If not, consider whether you really want to get a quote - if it's unlikely you'll get the product, don't bother.

Frankly, this situation is a disgrace; you should have a right to know the rate you'll get before applications go on credit files. Applying for a product puts a search on your credit file which hits your credit score, yet many products are rate for risk, without applying you can't know the rate.

### **Evidence of stability is good.**

Home owners rather than renters, and those who are employed, rather than self-employed, tend to be accepted more. Putting a fixed (land) line rather than a mobile number on application forms can help with security checks and improve your chances. Being with the same employer, bank and current address for a while all help too.

### **Check the address on all active accounts.**

You may not have used your old mobile contract or credit card for five years, but if the account is still listed as open and you had a different address this can stymie applications due to ID checks. Check your file and go through every active account's address to ensure it's up to date.