

Understanding and Improving Credit Scores

What is a credit score?

A credit score estimates how likely someone is to handle financial commitments responsibly. There is no universal system; each credit agency has their own. As a general rule high numbers are good and low numbers are bad.

Who checks my credit file and credit score?

Any organisation that lends you money or needs frequent payments might check your credit file and score. For example, contract mobile phones, credit cards, store cards, catalogues, mortgage lenders, car insurance and banks.

Why do organisations use credit scores?

Organisations used to analyse credit files manually. Decisions were based on personal opinion and were often affected by factors that had little bearing on an applicant's ability to manage money. Credit scores help organisations to assess risk fairly because they are consistent and objective.

Who are the main credit reference agencies?

There are three UK credit agencies in the UK: Equifax, Experian and Callcredit. All use similar information to calculate credit scores even though their rating scales are different. Organisations use their preferred agency, some use more than one. The Prince's Trust uses Equifax.

What information is used to calculate my credit score?

There are six main sources of information used to calculate a credit score:

- 1) **Electoral roll:** whether you are on the electoral roll
- 2) **Court records:** County Court Judgements (CCJs) and bankruptcies
- 3) **Search data:** who else has been searching your credit file and when (application decisions are not shown)
- 4) **Address and linked data:** other addresses and people you are financially linked to
- 5) **Fraud data:** if you've committed fraud or someone has stolen your identity and committed fraud
- 6) **Account data:** information on how you manage financial commitments from organisations that you have or have had a financial relationship with. For example, whether you are or have been in default or arrears, how much credit you have, whether you've missed repayments, how much you repay (the minimum or full amount).

What information is not used to calculate my credit score?

The following information does not impact your credit score:

- 1) Parking or driving fines
- 2) Race or religion
- 3) Checking your own credit file
- 4) Salary or savings accounts
- 5) Medical history or criminal record
- 6) Information on relatives or house mates (unless you have joint financial commitments)
- 7) Student loans (for loans issued after 1998)

How can I improve my credit score?

- 1) **Get on the electoral roll:** by completing the form that comes in the post between August and November or by downloading a form (www.aboutmyvote.co.uk or your council website) and sending it to your electoral office.
- 2) **Show stability:** register all your accounts and bills to the address where you are on the electoral roll. Try not to change this address very often. Include a landline rather than a mobile number on application forms and do not have your mail forwarded to another address.
- 3) **Get a good repayment record:** a credit score tries to predict your behaviour so having a poor credit history or no credit history will impact your score. Over six to twelve months, try to build up a pattern of spending and repaying in full a small amount of money each month to build up a good reputation.
- 4) **Never be late:** try to pay at least the minimum monthly repayment amount on all your commitments. If you are in difficulties contact your lender. Changing your repayment schedule is better than defaulting because although it will affect your credit score, it's better than a County Court Judgment.
- 5) **Check your active accounts:** access to too much credit can be a problem. If you have a range of unused credit cards and accounts it's best to cancel them. However, long standing accounts with good credit histories can be a benefit, so they're best left open. Make sure all accounts include the same details: name, date of birth address etc.
- 6) **Deal with defaults:** as these will impact your ability to get new credit. If they're genuine and fair they are tough to deal with but there are a few things you can try especially if the default is unfair:
 - a. Complain to the Ombudsman: write to the lender and complain the default is not fair. Ask for it to be removed. If that fails, complain to the Financial Ombudsman (www.financial-ombudsman.org.uk).
 - b. Negotiate with the lender: if you are prepared to settle the debt, in part or in full, you can negotiate with the lender. You can make it a condition of settlement that the default is removed from your credit file.
 - c. Add a 'Notice of Correction' to explain the problem. For example, going through a divorce, suffering illness, made redundant. Most companies will look at these reasons manually and may take them into consideration when making their decision.

Can I check my own credit report and credit score?

Yes. You have a right under the Consumer Credit Act to write to the credit reference agencies and get your credit reports. This can be a slow process and costs £2 per agency. The report will show you all the information held on your credit file that is used to calculate your credit score. Sometimes the agencies offer online deals that mean you can access the same information for free.

Who should I contact if I want more information and advice?

You can contact any of the following organisations for further information and advice:

- 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

- Equifax: www.equifax.co.uk
- Experion: www.experion.co.uk
- Callcredit: www.callcredit.co.uk