

## **Credit Scoring and Credit Reference Agencies**

### **What is credit scoring?**

When you apply for a current account, credit card, personal loan, hire purchase (HP) agreement or mortgage, or any other form of credit, it is likely that the lender will 'credit score' your application. This will help it decide whether to accept your application and, where relevant, help set your maximum credit limit.

Credit scoring works by awarding 'points' depending on your answers to the questions on the application form. The questions are designed to help the lender to assess your creditworthiness. In other words, it tries to predict how big a risk it is taking by allowing you to borrow up to a certain limit. If your total score reaches a certain level, then you 'pass' the credit score. If you don't score enough points, the lender may either:

- Turn down your application;
- Offer to lend you a smaller amount than you were hoping for; or,
- Charge you a higher rate of interest.

As well as credit scoring your application, the lender will also carry out a credit reference check by using a credit reference agency to look at your credit file. A good history with credit can help your application.

### **Why do lenders use credit reference agencies, and what information do they have on my credit file?**

Credit reference agencies hold information on most adults in the UK. This helps lenders to assess the risk of lending to particular people, and reduce the risk of fraud by allowing them to look at information held in individual credit files. This information falls into three main categories:

- Public record information - the UK electoral roll (used for checking names and addresses), County Court Judgements (CCJ) and Scottish Decrees (awarded against people who have defaulted on debts), and records of Bankruptcies, Individual Voluntary Arrangements (IVA) and Administration or Repossession Orders.
- Credit account information - lenders share information about borrowers by registering it with credit reference agencies. This can show whether people have kept their payments up-to-date in the past. It also lets them check whether people have loans outstanding with other lenders and, if so, whether they have kept the payments up to date.
- Search information - the file also records credit checks carried out by lenders and a large number of applications made over a short period of time. This could be seen as an indication of over-commitment, or even fraud.

### **What happens if I fail the credit score?**

If I fail the credit score does this mean no-one will lend to me? No. Different lenders give different weight to the various characteristics and some set a higher 'pass' score than others. So, just because one lender turns you down, it doesn't mean that other lenders will make the same decision. You can always try somewhere else, but remember that each application is likely to be recorded on your credit reference file. Also, failing a credit score might simply mean that the lender feels you are over-committing yourself, taking into account any existing debts you may have. If this is the case, it might be wise to reduce the amount you are seeking to borrow, both to help you pass the credit score, and to make your debts easier to manage.

### **Can I find out why I failed the credit score?**

Lenders are unlikely to reveal the full details of the information they use in their scoring system.

This is because they are worried that it may tempt people to give false answers to questions in an attempt to boost their credit score. Also, the scoring systems are commercially sensitive – a lender does not want its competitors to know how it chooses its customers. Having said this, lenders that subscribe to the Credit Scoring Guide or the Banking Code have agreed to give a general indication of the reasons for failing a credit score, if you ask them to do so, and the name of any credit reference agency used. They must also tell you that your application will be scored. Lenders often look for stability and the ability to repay your debts. If you own your own home, or have lived in it for some time, or been in the same job for a while, this will probably help your score. However if you have several other credit cards or other loans, or have made a lot of credit applications around the same time, they may think you are over-stretching yourself financially.

### **Is there a credit blacklist, and is my name on it?**

There is no such thing as a credit 'blacklist'. The credit file held on you by credit reference agencies contains certain factual information that might improve or reduce your chances of getting credit. But credit reference agencies don't tell or advise lenders who they should and shouldn't lend to. In other words, there's no central list of people that no lender will touch. Each lender will use the information provided by credit reference agencies to help it make its own lending decisions. Different lenders make different decisions, even though they generally use the same sources of information.

### **How can I get incorrect information removed from my credit file?**

The Data Protection Act 1998 gives you the right to correct information held about you which is inaccurate. Ask the credit reference agency for advice about how to go about removing or amending information you believe to be incorrect.

### **Why are other people's names included on my credit file, and can I get them removed?**

When you apply for credit and lenders check your credit file, they can only see information about other people you are financially linked to, such as people you share a joint bank account or mortgage with. Your credit file will include the names of people you are financially linked to, but it won't include any of their financial details. If your credit file shows you are financially linked to someone when you are not, you can ask the credit reference agency to amend the file so that the link between you is broken.

The credit reference agencies are:

Experian

Tel: 0870 241 6212

Website: [www.experian.co.uk](http://www.experian.co.uk)

Equifax

Tel: 08705 143700

Website: [www.equifax.co.uk](http://www.equifax.co.uk)

Call Credit

Tel: 0870 060 1414

Website: [www.callcredit.co.uk](http://www.callcredit.co.uk)