So, What's the Score?

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It's important for landlords, and for tenants too, to know the score – in other words, to know about Credit Scores and to know how to check your own credit files.

Increasingly, landlords and agents do credit checks and referencing on their prospective tenants, moving away from the traditional "gut feel" selection methods to a more modern and scientific base. Credit Checks and Referencing is now so easy and quick on-line – see www.TenantVERIFY.co.uk

These days, when you apply for a bank account, a credit card, a personal loan, hire purchase, a mortgage, or any other forms of credit, including, increasingly, a tenancy, it is likely that the lender or landlord will seek permission to carry out a credit check on the application and your "credit score" will be obtained.

Anyone who has had credit will have a credit file. For a credit score to be calculated based on your credit report, the report must contain at least one account that has been active for six months or longer.

The report must also contain at least one account that has been updated in the past six months. This will ensure that there is enough recent information, in your report to calculate an accurate score.

Your credit score will not be calculated if there is a fraud statement on your credit file or if you are in dispute with a lender over payments.

A credit score is a number (for example 180 out of a possible 300) used by lenders, as an indication of how likely an applicant is to pay regularly and on-

time. The credit score is generated by a mathematical formula using data from the applicant's credit report.

Credit scores have been in use as part of the lending decision making process for over 30 years and with all this experience agencies and lenders have become increasingly proficient at predicting an applicant's reliability. The process therefore predicts how big a risk is being taken by allowing an applicant to borrow up to a certain limit or, in the case of lettings, to take on a tenancy with a certain monthly rent.

All this helps the lender to decide whether to accept or reject the application and, where relevant, to help set a maximum credit limit. In the case of a tenancy, it is likely that a limit of 2.5 times the tenant's salary, and for a guarantor, 3 times salary will be imposed.

To "pass" the credit score system the applicant's score must reach a certain figure. In the case of a tenancy application and depending on the score obtained, the landlord or his agent may:

- Accept the application
- Fail the application, or
- Ask for a guarantor.

The guarantor will also need to have a "pass" level credit score.

The lender or landlord will carry out Credit Reference Checks using a Credit Reference Agency. The agency will examine the applicant's credit history to see if the applicant has a good record of personal credit management and will produce a credit score.

In the case of a Comprehensive Check an employer's and previous landlord's reference will be sought.

What information will be provided by credit reference agencies?

There are two main categories of information provided by a credit reference agency: Public Information and personal Credit Account Information.

Public Information is obtained from the Electoral Register (provided by local authorities), which is used to help identification: county court judgments (from the Registry Trust Ltd, which is the official body that records county court judgments) and bankruptcies (from the official London and Scottish Gazettes).

Credit Account Information is held by credit reference agencies on behalf of lenders such as credit card companies and finance houses. Most of the UK's credit-granting institutions share and store information about any credit agreements they may have with their customers, with a credit reference agency.

Also, many of these lenders have agreed to share this information with each other. When someone applies for credit, therefore, this lets the lenders check whether or not that person has repaid money to other lenders in the past – it’s a quick and reliable method of checking a person's credit history.

Good information, such a loan that’s been regularly paid on time, should support a new application. On the other hand, information showing loans that have not been repaid on time will adversely affect an application.

Statistics show that people who have had past financial difficulties are far more likely to default on repayments in the future. Also, if someone is already having financial difficulties, it may not be in their own best interests to be given more credit.

If you are refused credit, you can get advice from your local Trading Standards Department, Citizen's Advice Bureau or Consumer Advice Centre.

In fact, you have the right to get mistakes corrected and if a company has put incorrect and damaging information on your credit record, that can be libellous. The Information Commission says:

> “There is a right to compensation under Section 13 of the Data protection Act 1998, if an individual can show he or she has suffered damage as a result of what someone in control of information has done with it.”

The Information Commissioner produces a leaflet entitled 'No Credit?' You can obtain a free copy from the Information Commissioner's website www.informationcommissioner.gov.uk

So what factors influence an applicant’s credit score?

There are various factors, which determine credit scores, some of which are probably not fully disclosed by the credit reference agencies, but some of the main ones include the following:

- Payment history – a record of late or missed payments will give a lower score.
- Outstanding debt – If the applicant currently owes a lot the score will be lowered, particularly if they are near their total credit limit.
- Accounts in use - The existence of too many open accounts can lower a score, whether the accounts are being used or not.
- Length of credit history – the longer the better. This can be a problem for someone with no history of using credit or holding credit cards etc.
- The amount of credit used - compared to the credit available.
- Amount and frequency of derogatory credit information - such as county court judgements, bankruptcies, charge-offs, and collections.
- New and changed accounts - opening multiple new accounts in a short period of time or constantly changing banks will give a lower score.

- Searches made - whenever someone else gets a credit report, for example, a lender, landlord, or insurer, the search is recorded on your credit report. A large number of recent searches may lower your score.
- Moving house - the more you move around in a short space of time the bigger the adverse effect it will have on the score
- Living abroad – when you are abroad you are effectively out of the system, so not credit information is accruing.

Regularly checking your own credit report can be a wise precaution so that you can:

- Be fully informed of the most up-to-date information in your personal credit history
- Correct any inaccuracies; to make sure that your credit data is always a true picture of your credit record.
- Be aware of who is making credit checks on you or if anyone is applying for credit in your name. Identity theft is an increasing problem, and for this reason alone monitoring your credit record is very worthwhile.

What would be a "good" credit score?

There are several types of credit scores available and different agencies use slightly different systems. However, is each case the higher the score, the better.

Each credit check agency will decide what credit score range it considers to be a good credit risk. However, the actual credit score is only one component of the information evaluated.

Improving the Score

With credit card and loan offers piling through letterboxes everywhere, it’s never been easier to run up debt. If you have been less than exemplary in

your personal financial management you could find yourself blacklisted for credit, and have a real problem when it comes to securing a loan or a tenancy, so is there a reliable way to clean-up your act?

The short answer is yes, but it will inevitably take you some time if you want to repair your credit rating – be wary of companies promising to instantly wipe out a bad credit record, it just cannot be done.

The first thing a lender, insurer or landlord does when first considering you for a credit card, a loan, insurance or a tenancy is to check your credit report. A file on your credit details will be held by Britain’s two credit reference agencies – see below for details of these agencies.

If you find your applications are being turned down, don’t go from one lender to the next hoping to be accepted. Every time a lender checks with a credit reference agency it will be recorded on your file, leading to a lower score.

To lenders these 'footprints' can indicate that you may be over-extending yourself; that you are being refused by other lenders and forced to look elsewhere, or that there may be fraud involved.

There may be very good reasons for your credit score problems. If you have had late or missed payments, or you have defaulted on loan payments or County Court Judgements (CCJs), these details will be recorded on your credit record file for six years (unless you pay off a CCJ within the first month).

It's been estimated that around 80% of credit records contain errors. This therefore gives you a chance to correct them before you apply for a loan, insurance or a tenancy.

Cancel excess numbers of credit cards or those you don't use anymore. Pay off any outstanding accounts, and check your file for any listed account numbers that are not yours. Check your record of loan balances and late

payments for accuracy. You may need to provide a good explanation of these to lenders.

To improve your credit score, and start to build a good record, from now on pay all of your bills on time and reduce the amount of credit you have outstanding.

Credit repair companies can improve your credit rating for you, but they can't do it overnight and they charge anything from £50 to £200. There is nothing that these companies do which you cannot easily do for yourself.

The starting point is to get a copy of your credit record files from the credit reference agencies. This information may tell you a different story and give you a cause for your low score, which you had not considered before.

For example, your personal record may be affected by the debts of a relative or former spouse who is, or was, living in the same property as yourself. This is because your address is a key element in your credit record and in cases like this it is possible to have a Notice of Disassociation added to your file.

The Notice of Disassociation will effectively filter the other person's information from your credit file. It's also possible to add a Notice of Correction to your file. This is used where there is a piece of information that is basically correct but where it could benefit from being put into context. Examples of this might be a credit default from the past when you were made redundant, you got divorced or you had an extended period of time off work through illness.

If none of these issues apply to you, or you have taken steps to resolve debt problems but are still being refused credit, ask the credit reference agencies and the lenders why? It might be that the credit scoring procedures used by a particular lender is very strict. The good news here is that taking out some form of credit and then dutifully meeting the repayments on time can quite quickly build a good credit status.

If a lender or landlord turns down your credit or tenancy application, they should tell you the main reason why your application failed to qualify you. They are not obliged, however, to disclose the full information they have obtained, and they certainly are not under any obligation to show you the report – in fact they will be told not to do so by the credit agency.

Banks use a system known as “Behavioural Scoring”, or what they call predictive scoring, in addition to credit scoring on their existing customers. Behavioural scoring is basically an assessment of the way that a customer manages their own bank accounts, based on the longer-term pattern of activity seen passing though their accounts. This has been shown to by a highly statistically consistent way of identifying acceptable credit risks to the bank.

Landlords can use a less sophisticated form of behavioural scoring by requesting sight of 6 month’s current account statements from their prospective tenants. Careful scrutiny of these can be very revealing as to the tenant’s financial life-style, and commitments in terms of income and outgoings over a period of time.

In addition, unlike a couple of utility bills, it’s very unlikely that an identity fraudster could access 6 months of someone else’s currents account bank statements in order to obtain a tenancy in someone else’s name – not unheard of these days!

Credit Score Healing Tips!

Scores will automatically improve, as one's overall credit picture gets better. That means building-up a pattern over time of paying your bills on time and using credit conservatively.

Some credit management tips:

- Pay your bills on time - late payments will definitely have a serious impact on your credit score.
- When you have missed payments, and we can all do this accidentally sometimes, get up-to-date and stay up-to-date. The more you pay your bills on time, the better your credit score.
- Try to actually pay-off debt rather than move it around.
- Re-establish your credit history if you have had previous problems. Starting new accounts and paying them off on time will raise your score in the long run.
- Request and check your own Credit Reports. Doing this will not affect your score, as long as it's done through a credit reference agency or an organisation authorised to provide Credit Reports to consumers – these are now available on-line.
- By all means have credit cards but manage them responsibly. In fact, having credit cards and instalment loans, provided you make regular payments' will raise your credit score.
- Only apply for new credit accounts when you definitely need them.
- If you are having trouble making ends meet you should contact your creditors or see a legitimate credit counsellor to help get back on-track and start to rebuild a good credit management record.

How can I get my credit file information?

For a small fee you can obtain your credit files from the two main UK agencies:

Experian Ltd www.uk.experian.com/consumer 0870 241 6212 Consumer Service Help Centre Experian Ltd PO BOX 8000	Equifax PLC www.equifax.co.uk 0870 010 0583 Credit File Advice Centre PO BOX 3001 Glasgow G81 2DT

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