

WHAT IS A CREDIT SCORE?

You may have heard about “credit scores” from news articles, different websites providing scores, products offered by credit reporting bodies, or discussions with your credit provider. You might even have noticed that different organisations’ credit scores relating to you are different from each other.

Even though a credit score can seem like a random number, it is important to understand what it represents. This factsheet aims to provide you with information about what a credit score is, what it means, how it is created, how it might be used and how you can improve your credit scores over time.

Your credit score is a number which is intended to be indicative of your credit worthiness. Credit scores may be used to help credit providers, like banks or credit unions, make lending decisions about whether or not they will accept your credit application (such as a loan application).

How many credit scores do I have, and why are they different?

You may have many different credit scores – because each credit reporting body or credit provider will calculate their own score using their own formulas and information available to them at that time. They may hold different information and potentially assess this in different ways.

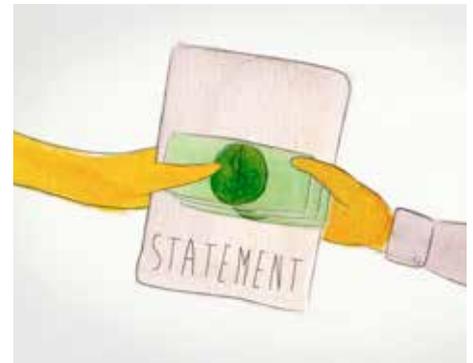
Your credit score from a credit provider with whom you have a limited credit relationship could be quite different to your credit score from a credit provider with whom you have many credit products.

A lower credit score from a credit reporting body or credit provider means that you are regarded by them as a higher credit risk than a person who gets a higher credit score.

It’s also important to know that your credit scores keep changing over time. The changes to your scores will occur when each credit provider and each credit reporting body obtains more up to date information, or if they change how they calculate your score.

How can I improve my credit scores?

If you manage your credit effectively, this should be reflected in your credit scores (although as noted above each of your credit scores depends on which credit reporting body or credit provider has calculated it). When obtaining a copy of one of your credit scores, it is a good idea to also obtain a copy of your credit report so you can better understand some of the information which may have been used to calculate that credit score. Visit www.CreditSmart.org.au/getting-free-credit-report for more information.



How are credit scores created?

Credit scores from credit reporting bodies are generally based on credit-related and demographic information held by them on your credit history – which may include age and location, type of credit applied for, type of credit provider, the number of enquiries made to lenders about credit over time, repayment behaviour, public data including court judgments or court writs and defaults including how many, whether they are paid and how recent they are.

In addition to having their own process for calculating a credit score, each credit provider also applies their own criteria and policies when making lending decisions - which is why some lenders may approve your application while others won't.

Visit www.CreditSmart.org.au

CreditSmart is an information website developed by credit experts in conjunction with consumer advocates and government bodies to help you understand the credit reporting system.

Our goal is to help you understand how the credit reporting system affects you, by providing unbiased and fair information.

How to manage your credit effectively?

1 **Only get credit you need and believe you can repay.** Most credit providers will make sure you can pay back the money before they lend it to you, but you should also take responsibility for managing your credit. Be clear about what credit you need and why you need it. Work out a budget so that you know what you can afford to repay.

2 **Speak up if you are having money troubles.** If you are having trouble repaying your debt, or think you may get into financial difficulties, contact your credit provider as soon as possible as they can often help you – for example, by changing your repayment structure. You can also speak to a financial counsellor. Financial counsellors work in community organisations and provide advice about credit and debt issues. Financial counselling is free, independent and confidential. To find a community legal centre in your area visit www.CreditSmart.org.au/page/helpful-services.

3 **Review your credit report at least once a year or before you apply for credit.** This ensures you can quickly spot and fix any errors (either personal or credit-specific), so they don't adversely affect your credit application.

4 **Complete credit application forms fully and accurately.** If you don't disclose all information about your living and financial situation, credit providers can't make an informed decision about your ability to meet repayments. You might get the credit now, but you could run into financial stress and difficulties when payments fall due.

5 **Pay your bills off in small amounts before the due date.** Many credit providers offer payment plans where a portion of the bill is debited from your bank account on a certain date. You can also organise to have payments automatically debited from your bank account. If you do this, when you receive your bill you may find you only have a small proportion left to pay or even that you are in credit. Contact your bank or financial institution to find out how to do this.

6 **Close down unused credit card accounts.** For example, if you transfer your debt to a new credit card provider, ask your old provider to close your account. You will avoid fees and charges, and the temptation to use the additional credit.

7 **Review your household bills, bank account and credit card activity statements every month.** This will help you spot and investigate incorrect or suspicious transactions, or find bills you may have forgotten about. It also puts you in control of your financial situation.

8 **If you have more than one credit card, only ever carry one of them with you.** This not only helps control overspending, but reduces the risk of credit card fraud if your wallet is lost or stolen. If you see something you want, but can't pay for it right now, you could save up for the item, use in-store lay-by or ask friends or family to buy it for you as a birthday gift.

9 **Use a deposit account to start saving.** Set up a deposit account with low or no fees, and transfer money into the account each time you are paid. You could use the money you save to pay for holidays, cover unexpected expenses or make significant purchases.

10 **Always remember to update your address details.** Each time you change address, you should contact your financial institutions, telephone and utility providers, or any other credit provider you deal with, and provide them your updated details. This will mean that you continue to receive up-to-date account statements and do not risk missing a payment request because it has been sent to your old address.