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# This is how

# important your credit score is

Your credit score is used to work out if you're a safe bet, so it's important, even if you're unaware it exists, writes Nigel Bowen.

If you've got a credit card, have applied for a loan, signed a mobile-phone contract or opened an account with a utility company, it is likely you have a credit score.

If you're like most Australians, you've got no idea what that score is or even that it exists. Nonetheless, it's almost certainly having an impact on your life.

Interestingly, despite the clichés about their credit card-fuelled shopaholic tendencies, Australian women on average have better credit scores than men.

## Have you got a good figure?

Credit scores allow companies to make a quick, informed decision about the likelihood of a potential customer repaying a loan or meeting monthly repayments on a phone or utility contract.

While it sounds Orwellian, commercial transactions would be more complicated for both businesses and consumers if credit-reference agencies couldn't analyse people's credit history and give them an appropriate score.

Agencies are tight-lipped about exactly how credit scores are determined. But those operating in Australia – Veda Advantage, Dun & Bradstreet, Experian Information Solutions and Tasmanian Collection Service – admit the major factors are the following:

- an individual's default history
- the total amount of credit they've applied for
- the amount of credit they've applied for over the past 12 months
- the number of businesses they've requested credit from.

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Credit scores in Australia have been based on negative reporting, according to Mark Hewitt, general manager, sales and operations at Australian Finance Group, one of Australia's largest providers of mortgage-broking services.

"Scores have largely been determined by how much credit an individual has applied for and whether they have had any defaults," he says. "Now there's more data floating around the agencies are moving to positive reporting. That means those who do the right thing, such as making all their payments on time, get a higher score."

There are two things people should watch out for, adds Veda spokesperson Belinda Diprose.

“First, credit shopping – that is, applying for lots of credit in a short space of time – means you may be marked down,” she says. “Second, having any defaults is bad. A default is a debt over \$150 that’s more than 60 days overdue. If someone defaults, that stays on their credit record for five years and significantly impacts their ability to get credit.”

## Women rule the creditworthiness world

You can find out your credit score by going to [www.getcreditscore.com.au](http://www.getcreditscore.com.au). After providing some identifying information, you’ll get a number out of 1200. An average score is anything between 510 and 621. Anything above that is good to excellent, anything under it is below average.

Australians punch above their weight when it comes to creditworthiness. Our average credit score is a “very good” 771. Australian women on average score 778 compared to 766 for males.

“Research indicates that women take a slightly more serious approach to their finances,” Diprose says. “They’re more focused on achieving their financial goals and less relaxed about having a bad credit history. In contrast, the male mindset seems to more commonly be: ‘I’ve worked hard, I’m going to enjoy myself even if that involves overspending’.”

It can be limiting that many women’s finances are intertwined with their male partners.

“If you’re applying for a mortgage with a partner, their below-average credit score could result in the mortgage not being approved even if you have a good score,” says Hewitt. “That’s why I joke that people on first dates should share their credit scores.”

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## Scored for life?

Diprose gives the example of a 27-year-old woman with a below-average credit score.

“She may not be aware she has a bad score,” she says. “Perhaps she was in a relationship with a financially irresponsible boyfriend, which resulted in her defaulting on, say, an electricity bill. But, years later, that bad credit score is going to be an issue if she applies for a car loan.

“It’s potentially going to be a headache when she moves house and wants to get the utilities turned on and the internet connected. It’s going to be an issue if she applies for a credit card or an interest-free loan to buy a fridge at Harvey Norman. And it’s definitely going to come up if she applies for a mortgage.”

As the big data era picks up pace, both Diprose and Hewitt believe it can only be a matter of time before those with bad scores face more punitive terms.

“Businesses such as the one I work for presently look at credit scores and make a ‘yes or no’ decision about whether to provide an applicant with a mortgage, good or service,” says Hewitt. “What’s starting to happen, particularly overseas, is that rather than all customers getting largely the same treatment, business are offering terms that reflect a customer’s creditworthiness. So someone with a below-average credit score might find it easier to be approved for a mortgage in future. But they’ll pay a higher interest rate reflecting the fact they are a higher risk.”

# Improve your score

The good news is it's possible to bounce back from a less-than-ideal credit score. Once you've discovered you've got a disappointing score, the next step is to find out why. "For \$80 to \$120 you can access Veda's Your Credit and Identity service explaining the reasons for your credit score," Diprose says. "After getting your credit report, you should make sure all the information is correct and you haven't, for example, been a victim of identity theft."


Once that's done, Diprose's advice for improving your credit score is the following:

- pay off any defaults
- pay all future bills on time
- avoid making lots of credit applications in a short period of time
- address financial setbacks sooner rather than later.

Many businesses will vary payment terms if you're going through a rough patch. But those arrangements need to be negotiated before things get to the default stage in order to avoid damage to your credit score

"Your credit score encapsulates the information that's on your credit report at a particular point in time," Diprose concludes. "If that information changes, so will your score."

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