

What is credit scoring?

Want to know why it may be getting harder to obtain pre-approval for a car loan?

It could be due to this nasty new thing called 'credit scoring' ...

Credit scoring is an old concept that has seen a revival since the global financial crisis. Many of our panel of = banks and lenders are now using computer systems to 'credit score' your application before it even gets into the hands of a human credit assessor.

Credit scoring benchmarks the clients details against historical data to help the bank determine the likelihood of a mortgage arrears (missed payments). Data that is credit scored is far ranging and includes just a few of the following:

- Your Income versus your expenses. This is a good guide as to whether or not the new loan you are asking for is going to place stress on your income.
- Your assets versus liabilities, and this is often linked to your age, for example, someone in their 20's isn't expected to have amassed a huge balance sheet, so that is fine, but if you are in your 40's or 50's and don't have much to show for yourself or your retirement, this could bode badly for your credit score.
- Your stability. This data could be your employment history, is it choppy or stable? Have you moved from industry to industry, or maintained the same field of employment. How long has your last job or two been held for?
- Further, such factors as your living address history has been known to impact on your credit score. Again if you have a choppy living address history, this can raise alarm bells with the bank.
- The number of enquiries on your credit report is a big factor, if you have had excessive enquiries, particularly in the last 12 months on your credit file, the bank is going to question why and whether you have taken all these new debts out.

What is a credit file?

Aside from this, your credit report will also dictate how well your application is received. In Australia we have a negative credit reporting system, this means that only negative items are listed, such as arrears, judgements and bankruptcies. Ongoing commercial and credit line arrangements are sometimes recorded, and every single time you send a formal application in to a lender (either by phone, online, or through a branch/bank) this is recorded. A high level of enquiry, over four per annum, for example, can affect your credit score. Multiple applications for credit cards within a short period of time can impact doesn't look good for obvious reason. You can obtain a free copy of your credit report from Veda Advantage by visiting this website <http://www.mycreditfile.com.au/personal/> . You can also pay the fee to get it sent quicker. =

How do I build a good credit file and credit score well with the bank

- 1) Build your assets and pay down debt. Borrowing to buy a car does not improve your credit score, we are not living in America where you 'build a positive credit rating'. You may gain a

positive credit rating with that ONE lender you took the loan with, but not with all, as at present it won't add points to your credit file.

- 2) Seek stability of employment as a priority, and also stability of living address
- 3) Do not make unnecessary enquiries for credit, phone and net enquiries are just as harmful. Talk to a broker first and understand that you can shop before buying by talking to professionals, thus reducing your number of enquiries.
- 4) Stay away from credit cards, we should all only have a limit that we can afford to clear monthly. If your limit is above this, slowly pay it down and lower the limit as you go.
- 5) Always maintain good conduct on all of your liabilities, this is good proof of your credit character with that lender. Extra repayments are viewed favourably too.

If you are concerned about your credit file or score, or wish to know more, feel free to contact one of our specialist brokers by emailing info@fatfinance.com.au