Improve Your Score
A mini guide

Contents

clearscore.com

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Chapter 1

Credit score explained

Your credit score is a number - generated by a credit reference agency - which provides an indication of a person's financial health. Together with your report, the score helps **lenders to make decisions** about whether you should be able to receive a loan, a mortgage, or even a mobile phone contract. You could think of it like your **financial CV**.

Lenders look at your credit score and report as just one of the criteria on which they base their decision to lend you money. Your credit score is not necessarily the deciding factor but it can be seen as a quick summary of the information in your credit report.

ClearScore shows you a score as provided by Equifax, one of three credit reference agencies in the UK, which is a number on a scale 0-700.

A **higher score** generally means that your application is more likely to be accepted. However, most people don't realise that it also means you may be eligible for **better interest rates and better deals** when borrowing money, taking out a phone or rental contract, or taking out a mortgage.

Spotlight on UK credit use

The average consumer credit borrowing in 2015 was £3,348 per adult[1].

In February 2015, 11.1 million households in the UK had a mortgage[1]. That's 40% of total UK households.

In 2014, 1.8 million new cars were bought on finance, the highest proportion ever[2].

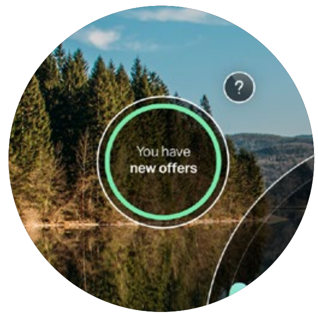
Yet 15 million people have never accessed their report and remain in the dark about their financial position, and nearly 4 million of those say they are put off by previously having to pay to access this information about themselves.[3]

Sources
[1]*The Money Charity* [2]*Finance and Leasing Association*
[3]*uSwitch and Opinium research conducted in October 2014*

Chapter 2

Your credit score now

Your score today is a **snapshot** reflecting how you handled debt and credit accounts in the past. For example if you handled debt well, never defaulting or missing payments, your score will be good. However, if you've had trouble paying off your debts, your score will be lower.



Though it might seem counter-intuitive, having **no previous credit history** will affect your score unfavourably. Credit scoring is about predicting your future behaviour based on how you have managed your debt in the past. So, no history, or a **'thin file'**, containing very little financial history, will make it more difficult to judge whether you will be a good customer.

If you are planning on borrowing in one way or another in the future, for example by getting a mortgage, you will want to prove to the lender that you are a risk worth taking.

Even if you're not planning on borrowing money right now, you might want to or need to in the future. Your **credit history** is something that you build over time so thinking about it now will make it easier to make the changes. Small changes will get you much further over a long period of time than a big effort closer to the time that you need to borrow money.

Chapter 3

Factors that affect your score

In this chapter, we will explore the factors that affect your credit score. When thinking about how lenders view your report, remember that they are looking for someone who will be able to meet the repayments: they want someone who is low risk.

Listed below are the main factors that affect your score:

- A large amount of credit available (e.g. having lots of credit cards)
- High credit utilisation
- A large number of applications for credit in a short period of time
- Frequent change of address
- Mistakes on your report
- Associations/connections
- Late/missed payments, defaults
- County Court Judgements
- Bankruptcy

A **large amount of credit available** tells the lenders that if you get into financial trouble, you may be less likely to pay them back. Your repayments will be spread over a larger number of lenders. It also means that you have the potential to run up very high debts. **High credit utilisation** makes it seem as if you are struggling with cash-flow or not managing your debt well, even if you repay in full at the end of the month.

Each time you **apply for credit** the lender carries out a check on your report. Most lenders do a **'hard search'**, which means that it shows up on your report, regardless of whether you were accepted or rejected. If you **accumulate a lot of these searches** in a short period of time, it may make you seem desperate for credit to other lenders. They might assume you're going through financial difficulties and therefore you may appear high risk. These searches stay on your report for 12 months.

Frequent changes of address simply take away from your image of stability and therefore make you appear more high risk.

Any **mistakes on your report** can have an effect on your score. These can be factual errors, such as the wrong address listed under one of your accounts, or closed accounts showing as open. It could even be that an unknown account is linked to your record as a result of fraudulent activity. Picking up any mistakes is crucial.

A **financial association** occurs when you have a joint credit account or have made a joint credit application with another person. This is sometimes called a financial connection. If you are financially connected to someone, their information may affect a lending decision about you. If you are still **financially linked** to an ex-partner when in reality that connection does not exist anymore, you should make sure you remove this association on the report.

The factors that have the biggest negative impact on your score are late or missed payments, defaults on debt, **county court judgments (CCJs)** and **bankruptcy**. These show serious financial difficulty and suggest you cannot or could not afford the debt you have taken on. Though you might be in the clear now, the items on your report stay there for 6 years and during that time lenders will be less willing to grant you credit.

Chapter 4

How to improve your score and protect against it going down.

Though your credit report and score might seem to be far removed from your everyday life, you have more **control** over them than you might suppose. Your report is the reflection of your financial actions so these directly influence what appears on it. This is something which you should keep in mind when you're making long-term financial decisions. But there are also a few things which you can do now to **boost your credit score**.

These few things mean that your information is in order when the lender checks through your credit report. If you have **different addresses** on your application and your report because you have moved regularly, you may seem unreliable, your ID check might fail or it might seem like you're trying to commit fraud. Correct information on the electoral roll makes it easier for a lender to carry out an ID check

Longer term:

• Always pay all your credit payments on time

• Build history with a credit card – always pay on time

• Only utilise a small percentage of your available credit

Building and protecting your credit score in the long term is all about responsibly managing your finances and debt. It means always paying on time and utilising a small percentage of your available credit. If you have a thin file, **the easiest way to build credit is with a credit card**. Spend a small amount every month and always pay it back in full – this will show up on your credit report, proving that you can **manage your credit responsibly**.

Even though you might not be struggling for money, it is good to always be mindful of your borrowings. In the eyes of the lender, missing a payment because you are forgetful does not differ from struggling to pay on time.

Things to avoid doing

• Be careful not to default or miss payments

• Don't make multiple applications in a short period of time – especially if you were rejected.

[Note – a number of applications in a short period of time is ok for some prod ucts such as mortgages or insurance, which shows that you are shopping around for the best deal]

• Try to avoid utilising more than 30% of your credit

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Chapter 5

Monitoring your score and report with ClearScore.

Simply knowing your credit score and understanding how it works puts you ahead in managing your financial wellbeing.

Your score changes each month, and you will be able to monitor your report and score as many times as you like by logging into your ClearScore account. However many times you check it, there will be no effect on your score.

If you are successful in increasing your score over time, it may be that lenders will be more likely to offer you better deals in the future.

We are free forever, so you never have to worry about losing sight of your score and report again.

clearscore.com

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Chapter 6

Credit score vocabulary

Thin file	If you have very little credit history (perhaps because you are very young, or you have recently moved to this country) then your credit report will lack information about your financial habits. A thin file makes it harder to judge whether you are a low or a high risk customer.
Credit utilisation	This is the percentage of the available credit that you are using. So if you have one credit card with a £2000 limit and £200 balance, your utilization will be 10%. Keep your utilisation low and spread evenly across all your cards.
Hard search	A hard search occurs when a lending company checks your report before making a decision on whether to accept your application. This shows up for your report and stays there for 12 months. Each hard search represents a credit application to a lender. If you have a lot of them, they may automatically reject you as you will seem desperate for credit.
Soft search	A soft search is used in background checks or when you check your own report. It does not show up on your report, and does not have any effect on your score or report.
CCJs	If you fail to pay a debt to a lender, they can apply for a judgement from the County Court for you to pay back the money. If you pay within one month, the CCJ will not show up on your report, if you pay after one month, the CCJ will show up as 'satisfied', and if you fail to pay it will be labelled as 'unsatisfied'. Any CCJs that show up on your report will stay there for 6 years.
IVA (individual voluntary agreement)	This is a legally binding arrangement set up a by a licensed professional called an Insolvency Practitioner. The arrangement sets out reasonable monthly payments and a time frame, during which you pay your creditors. At the end of the agreement, the rest of the debt is written off. During an IVA, all charges and interest are frozen so that your debt is not growing. You can only arrange an IVA if your creditors agree and missing a payment will invalidate the agreement. An IVA stays on your credit report for 6 years.
Bankruptcy	You can be declared bankrupt if you apply for bankruptcy, a creditor applies for you to be declared bankrupt (if you owe them over £750), or you break the terms of your IVA. Bankruptcy means that a trustee will be in charge of your finances. You might have to arrange for regular payments, sell your belongings or even property. Bankruptcy is usually lifted after 12 months, but the record stays on your credit report for 6 years.

Chapter 7

Case Studies

Ellie, 22.

Situation:
After talking to her Dad and learning about credit scoring for the first time, Ellie was worried that she will have trouble getting a good mortgage in the future. She wanted to build her score but she also did not want to take out an unnecessary loan and pay interest on money that she didn't have to borrow.

Solution:
Instead, she applied for a credit card and started using it for small purchases every month – and always paid the balance in full. Whilst the results for this kind of a strategy are never immediate, in the long term, Ellie will be able to show she can manage borrowing responsibly and this will give her a higher score and a stronger report. Keeping this account open in the future will mean that the age of the account will also positively add to her credit history.

Jason, 53.

Situation:
A few years ago, Jason applied for a loan to help him along with redesigning his garden. After the first rejection he applied to other lenders, but they all said 'no'. It was only later, after learning more about credit reports, that he realised multiple checks make you appear desperate for credit to lenders and therefore more risky.

Solution:
Firstly, Jason had to improve his score. A big part of it was ensuring that he never fell behind on his payments. However, after his credit score went up he did not apply for credit straight away. Instead, he waited for the multiple applications or 'hard checks' on his report to disappear. This information is held between 12 and 24 months, depending on the Credit Reference Agency. Once the enquiries were gone, he had no trouble obtaining credit, as he did no longer seemed desperate for a loan. Even if you don't wait long enough for the checks to disappear, the older the information the less bearing it has on lenders' decisions.

Tanya, 36.

Situation:
Tanya was disappointed when she was rejected for a new credit card. She did not have any problems with her credit score or report in the past, having always met her payments on time. Investigating further showed her that there was a mistake on her report: Tanya's listed address did not match her current one, which she put on her application.

Solution:
Depending on the nature of the mistake on your report, it can give lenders the wrong idea about certain parts of your credit history. Having the wrong address associated with your name can be a serious issue as it could suggest you're someone is trying to commit fraud or it can hinder the identity check. Tanya asked her credit reference agency to change the address on her report. Once it was corrected, she was surprised at how quickly her application was accepted.