
Credit scoring

What is credit scoring?

When you apply for a credit card, current account, personal loan, hire purchase (HP) agreement or mortgage, or any other form of credit, the lender will usually credit score your application. This helps the lender decide whether to accept your application and, where relevant, helps set your credit limit and interest rate.

Credit scoring works by awarding points to the information you provide on your application form and to the information recorded on your credit report (held by a credit reference agency). The questions on an application form are designed to help the lender to assess your creditworthiness. Credit scoring uses all this information to try to predict how big a risk the lender is taking by allowing you to borrow money. It often helps them decide:

- whether to give you a credit card or loan;
- what credit limit to give you; and
- what interest rate to charge

If your total score reaches the lender's pass mark, they will probably offer you credit. If you don't score enough points, the lender may:

- turn down your application;
- offer to lend you a smaller amount than you were hoping for; or
- charge you a higher rate of interest

Each lender has their own scoring system, but you'll generally score the most points the longer you've been in a job; if you own your own home and/or have lived for a while at the same address; if you're middle aged rather than younger or older; and if you're married. However, you certainly don't have to be all of these things to apply for a loan.

The information on your credit report is very important and having a good credit history will improve your chances of getting credit. Someone who has had a credit card and pays all their regular bills on time may score more points than someone who's new to loans. On the other hand, it can count against you if you already have several loans and credit cards, or if you've made lots of different applications recently.

If you're not on the Electoral Roll the lender might refuse your application. This is because lenders use it to confirm your name and address.

What if they turn you down?

Lenders won't go into detail about how their scoring systems work, but if you are refused credit you can ask them to tell you the main reason – which could be because of credit scoring or because of information on your credit report. They have to tell you the name of any credit reference agencies they used.

If you're an adult living in the UK, it's almost certain your name and details are held in the files of the three main credit reference agencies: Experian Ltd, Equifax plc and Callcredit plc.

When you apply for a loan, lenders may ask one of these agencies for a copy of your credit report (also called your credit file), which will tell them:

- Public record information about you, such as Electoral Roll details, and any court judgments (such as County Court Judgements, or CCJs, in England and Wales, and Decrees in Scotland) or records of bankruptcy against you.
- Credit account information details of your current credit agreements (such as whether you're up to date with your payments) as well as agreements you have had in the past six years.
- Other credit checks several applications in a short space of time may look like someone is overstretched, or possibly a victim of fraud.

Seeing your credit report

It's your legal right to see your credit report and to correct anything in it that you can prove is wrong.

Top tips

- 1 Ask to see your credit report occasionally. Mistakes can happen, and you can put them right.
- 2 Don't worry that agencies hold 'secret' information about you. You can see whatever information the lenders have available in your name.
- 3 Don't apply for several cards or loans at once. It can have a negative affect on your credit record.

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