TRY | FINANCIAL

How your credit rating affects the cost of borrowing

If you want to qualify for the most competitive loan and credit card rates then you need a good credit rating. What’s more, you need it to stay that way.

How lenders decide whether to lend to you

Banks and credit card companies use a variety of information to give you a credit score, which determines whether they will lend to you and on what terms.

Credit scoring can be based on information such as:

- What you provide on your application form
- What the lender might already have about you, based on previous accounts you have with them or previous applications, and
- Your credit report at one or more credit reference agencies – the three main CRAs are Experian, Equifax, and Credit Karma.

You’ll usually get a better credit score if you:

- Are on the electoral register.
- Own your own home and/or have lived at the same address for at least a year.
- Are not connected financially, through your mortgage or a joint loan bank account, to people with a bad credit score.
- Have a good credit history by repaying credit agreements on time, and also other bills such as gas and electricity bills and mobile phone contracts.
- Have evidence of stability – for example you’re employed rather than self-employed, you’ve lived at the same address, worked for the same company, and had the same bank account for a long time.

How a poor credit rating can affect you

A poor credit rating or score can mean you are:

- Charged higher interest rates,
- Given a smaller credit limit, or
- Simply rejected outright.

A lender doesn’t have to give you the interest rate they are advertising or that you see in best buy tables on comparison websites.

Some lenders operate on the basis of what's called 'rate-for-risk' pricing, where the rate you get depends upon the risk they think you represent of not paying the credit back on time.

You'll often see a 'representative APR' in advertising. At least 51% (just over half) of people applying for the product will pay this APR or better.

In some cases, they all will, but if the lender uses the 'rate-for-risk' pricing up to 49%, might be charged a higher rate.

This could be because they have a poor credit history or are new to credit.

Before you apply for credit, ask the lender what APR and interest rate you will be charged.

If they need to do a credit reference check before quoting this, ask if they can use a 'quotation search' (which doesn't leave a mark on your credit file).

This is useful when you are shopping around and not yet ready to apply.

How your credit rating can also affect your existing rate

Lenders don't just check your credit score when you apply for a new card or loan, or before increasing the credit limit.

They might also regularly review all of their customers to check whether their risk status has changed.

If it has, the interest rate might be increased.

Essentially this means that if you fall into a certain group based on your credit rating, and the lender decides that group is now a higher risk than previously, they might put up the interest rate for all the people in that group.

So even if you've been a good customer and always paid on time, you could suddenly face a hike in rates. That's why maintaining a good credit rating is essential even if you're not looking to borrow any more money.

Your rights if your interest rate is increased

It can be upsetting if a lender does increase your rate.

You might find it makes it more difficult to keep up repayments.

By law, a credit provider can only increase interest rates if it has a valid reason.

If the increase is based on a change in the risk presented by the customer, the lender must tell the customer this and (if the customer asks) provide an explanation.

If you don't understand this, ask – but they don't have to explain what exactly it was in your credit report or credit score that has changed.

How to complain

If you think you've been unfairly treated, you should complain to the lender first.

If you're not satisfied with its response, you can complain to the Financial Ombudsman Service.

What next

Contact the team at Try Financial on:

Tel: **01473 462288**

Or

Email: **enquiries@tryfinancial.co.uk**

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