

## Credit rating guide

### **How your credit rating may affect the cost of borrowing:**

If you want to qualify for the most competitive interest rates then you need a good credit rating, you will need it to stay this way.

### **How lenders decide whether to lend to you:**

Lenders use a variety of information to give you a credit score which determines if they will lend to you and on what terms.

### **Credit scoring can be based on information such as:**

- Details you provide on your mortgage application form.
- What the lender may already know about you, from any accounts held or if you have any previous applications.
- Your credit report at one or more credit reference agencies. The main three agencies are Experian, Equifax and Credit Karma.

### **Usually you will obtain a better credit score if you:**

- Are on the electoral register.
- Are not financially connected to anybody with bad credit, for example through a joint bank account or mortgage.
- Maintain all credit commitments by paying on time. This includes energy and mobile phone bills.
- Have evidence of stability. For example this means living at the same address, having the same bank account, working for the same company 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 lower credit limit or simply rejected outright. A lender does not have to give you the interest rate they are advertising or that you see on a comparison website.

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% 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 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 may 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. \*this does not apply to mortgages\*

## **Your rights if your interest rate is increased:**

It can be upsetting if your lender does increase your interest rate and you may find it difficult to keep up with 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 advise the customer and if the customer asks they must 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 have been unfairly treated, then you should complain to the lender first.

If you are not satisfied with their response, you can complain to the Financial Ombudsmen Service (FOS).