Mastering Your Credit File for Optimal Financial Outcomes

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Understanding your credit file will reduce the time it takes for debt to be approved, increase the value that can be sought and potentially even reduce the interest rate charged. Whether applying for a thousand-dollar loan, a million-dollar facility or vehicle finance, the result will be driven by your credit file. Understanding what impacts your credit file is critical for anyone looking to apply for a loan now or in the future.

Credit score, credit report, credit file and credit assessment

The terms credit score, credit file, credit report and credit assessment are often incorrectly used interchangeably. While related, they are not the same thing.

A credit assessment refers to all the information used by a lending institution to make a credit decision. When applying for any type of loan, the lender will compile information to undertake a credit assessment. It is not shared with other lenders. Given every lender assesses an applicant slightly differently, the type of information used to undertake your credit assessment will be different across lenders.

When considering whether to provide a loan, each lender will give greater and lesser importance to the many factors it compiles. A typical credit assessment will include information such as a credit report, credit score, existing debts as well as other qualitative factors such as occupation, dependents, home ownership etc.

Your credit file is general term covering all the historic information available to a credit bureau. This is compared to your credit report which is a snapshot of some of the available information. It is produced by a credit bureau. Most institutions use Equifax, Illion (formerly D&B) or Experian bureau services.

A typical report includes information on the number of times the credit report has been requested, payment defaults, court actions and a myriad of other information the bureau compiles. It is an evolving document based on available information at a point in time.

Your credit score is a number calculated by a credit bureau based on the information in the report itself. While each bureau uses a different calculation method and scale, your score is ultimately a comparison between you and other individuals. It compares your credit report metrics with others to formulate a statistical risk of default. Ultimately, the credit score is a crude summary of the information in your credit report relative to others.

Optimising your credit file

Any credit assessment typically begins by comparing a credit report to a set of predetermined rules. These rules are dictated by the institution providing the loan.

While there are some factors to a credit assessment that cannot be changed, ensuring that your credit report is as good as possible can substantially improve your chance of being approved.

As well as driving a process decision, an increasing number of financial institutions change the interest rate charged on a loan based on an applicant's credit score. A good credit report will drive a higher credit score. Known as risk based pricing, the interest rate changes based on the perceived level of risk. Maintaining a good credit file can reduce the cost of any loans sought.

Managing your credit report

Your credit report is produced by a credit bureau. It constantly changes over time based on the information a bureau collects. Bureau's predominantly collect information from the institutions that use the reports, utility providers and public record agencies. Additionally, public information such your address, court actions and directorships are also fed into the credit bureaus. Though a series of manual and automated data gathering exercises, bureaus amass data on almost every individual and business.

As credit providing institutions are the ones feeding information back to the bureaus, preventing payment delays with these organisations should be prioritised. If you fail to pay an institution that uses credit reports, the disgruntled institution is likely to inform the credit bureau.

"Typically, a default is flagged by an organisation when a payment is overdue by 60 days and the value is greater than $150."

Common defaults are flagged by credit card providers and post-paid telephone companies. In the event of a payment dispute whether with a bank, utility provider or any other institution, it is critical to ensure that a withholding of payment is not marked as a default. It is best to confirm this in writing from whomever is dealing with the matter.

Five easy steps to maintaining a credit score:

- **1. Pay organisations that use credit bureau's first:** Entities that use credit reports are the ones that inform bureaus of any payment challenges.
- **2. Ask if a default will be recorded:** In the event of an issue with a business that uses credit reports, ensure to receive written confirmation that a default will not be reported to a credit bureau.
- **3. Be aware how often a credit file is accessed:** Permission should only be given for a credit file to be accessed if there is a genuine intention to work with an organisation. Unnecessary enquiries to a file can impact the score.
- **4. Think about the institutions that access a credit file:** Lenders of last resort and payday lenders can inadvertently impact a credit report.
- **5. Self review your credit report before applying for a loan:** Clearing any inaccurate information can assist in improving a credit score.

Each time an institution requests your credit report, the request is marked on the report itself; this is known as a credit enquiry, hit or footprint. Enquiries are recorded regardless of whether you receive any products. The number of enquiries is often used as a crude proxy by credit analysts for the amount of debt being sought.

A large number of enquiries in a short period of time is often seen as a desperate need for cash and a sign of greater risk to a lender. While financing should always be sought when needed, an awareness of when your credit file will be requested from a bureau is valuable. Unless there is genuine intention to work with an organisation, unnecessary enquiries should be avoided.

The nature of institutions requesting your credit report is also assessed. When a credit analyst sees a lender of last resort on a credit report, it can cause them to take a pessimistic view of an application. Last resort lenders are typically unsecured, short term cash providers that charge high interest rates.

Although quick cash loans are sometimes required, they may make borrowing harder in the future. Before engaging with a same day cash lender, all other options should be considered and explored. If possible, always apply for loans from reputable institutions.

Any recorded court actions or writs also impact heavily on a credit report and score. These occur when a public institution, usually a law court, issues a requirement to either do, or not do an action. Regardless of what the legal matter is, a record in your credit report is likely to be made.

Depending on the circumstances, when applying for credit, it may be valuable to proactively explain the nature of any court action or writs when submitting a credit application. It demonstrates an awareness of the process and can proactively address any concerns. Additionally, if any writs are issued and subsequently withdrawn, it is important to check that they have been removed from your credit file.

"Each company and individual is entitled to request their credit file for free once per year."

Particularly before seeking trade terms or debt, it is valuable to request the credit report. To do this, contact the credit bureaus themselves; unfortunately, the process can take up to 10 days. There are four credit bureaus operating in Australia and a number of online services that source the information from these bureaus.

There are Once in hand, you should review it for any incorrect information such as writs, defaults or marked late payments. If an error is seen, contact the bureau to have it adjusted. This will almost certainly improve your credit score. While it may be tempting to contact a credit repair agency, they typically charge high fees and offer little value above what can be done without them.

Beyond the credit report

No lending institution will ever disclose the specific metrics they used to assess a loan application. Almost all institutions refer to the credit report and score. Metrics beyond these depend on the lender. Medical practitioners are often given a unique set of criteria requirements. This typically enables them to access capital at competitive rates and quicker speed.

It is common for lenders to assess if you have a partner with whom you share living expenses, any dependent children or existing debts. Ultimately, a lender wants to ensure you will be able to repay the loan without adverse impact on your lifestyle. This is known as serviceability. Understanding what institutions look at when offering a loan is critical. A strong credit file will ensure that you can access capital when it is needed.

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