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“Credit Rating”

From time to time we may all want to borrow some money. This could be a mortgage or car loan, or it could be some finance arrangement for a smaller purchase with some form of finance attached or a Credit or Store Card. Often the provider of the finance facility will perform a credit score on the individual to assess their credit-worthiness.

Borrower Beware

Before we go too far down this line, we would like to start with a note of caution. There are often good reasons for people taking out some sort of finance package, but the flip-side of this is that people can be encouraged to buy things that they simply can't afford. We would urge people to be very careful about spending decisions where they haven't got enough money available now to meet the cost.

The use of credit can appear extremely attractive but there is the risk of falling into the have now, pay later culture which can lead to incredibly serious problems with mounting debt that cannot be serviced. Although it may not be a clever use of differences in interest rates, we would urge all users of credit to think very carefully before committing to such an arrangement.

Remember, to obtain credit nowadays is a far cry from the old way of doing things when a borrower would have to go cap in hand to a bank manager (an experienced lender), who would work through your income and expenditure and tell you how much you could borrow. Now, if the computer says yes, you are away and therefore mainly you take the full responsibility for your decisions.

Look at the whole cost of the arrangement including fees and charges and consider the impact on the flexibility within your monthly budget before taking on any credit.

This is fairly counter-culture in a world that is trying to throw credit at you consistently. And remember although it may now be difficult to survive with a poor or non-existent credit rating, if you don't want to borrow any money or be involved in any form of financial contracts, it is not a disaster if you do not have a decent credit rating!

One more thing, the credit report and scoring is aiming to provide a quick reference overview of whether you are likely to make the lender money. This could well be because you are a relatively poor credit risk. If you manage to pay all of your bills on time you are unlikely to be a particularly good prospect for a lender as they will make less money out of you than someone who is late paying bills etc. This is the nastier side of borrowing that we feel is necessary to highlight.

Obtaining a Credit Report

Lenders and providers of finance related contracts will use a credit check as the main source of information to help them decide whether to offer the facility. If you haven't applied for any form of credit for some time it is possibly worth obtaining a credit report on yourself first.

You can obtain such a report by right at the cost of just £2 (Consumer Credit Act) from:

www.equifax.co.uk
www.experian.co.uk
www.callcredit.co.uk

The £2 report will not go into a huge amount of useful detail however, You may need to pay a bit more to get a more detailed report. At the time of writing typically these reports would cost up to £15 although most offer some sort of free trial that you may well be able to exploit.

These Credit websites also have a lot of useful information about your credit score and would be well worth spending some time mulling over to get a better understanding of the issues, where this guide is only an overview.





How is a credit report compiled?

Information is gathered from the electoral roll, from court records to check for CCJs and bankruptcies, searches and linked data (this includes a record of other lenders who have searched your file or others who you might be associated with, as well as any fraud data. If you have previously defaulted on a loan this will almost certainly show too.

If you spot an error on your report

You are able to write to the agency and request that they amend their records. They may take this instruction immediately or you may need to contact the provider or organisation who filed the record originally. Any complaints can be made to the Information Commissioner who is responsible for Data Protection.

How might you seek to improve your credit rating?

I have to say this is a bit of a minefield. We have therefore taken advice from the key credit rating providers. According to Experian's website (chosen at random to sample just one providers' view):

Pay on time

Lenders don't expect you to have a perfect credit rating, but they do want to know that you will make repayments on time and that you aren't already over-stretched. They do not want to see a patchy credit history that shows missed repayments or bad debts – it means that you could let them down, too. So always pay your bills and make monthly repayments in full and on time. Missed and late payments stay on your credit report for at least three years and may give lenders the impression that you could be a bad risk. If there's a good reason for past problems – maybe you were ill or going through a divorce – you can add a brief note of explanation to your report.

Close unused accounts

If you have any unused credit accounts, close them if you're sure you don't need them. Lenders can take into account the amount you could borrow, not simply what you currently owe. It's better to have fewer, well-managed accounts. Your credit report contains a useful list of lenders, which can act as a reminder and checklist.

Register to vote at your current address

Lenders use the Electoral Roll as a precaution against fraud, to check that you live where you say you do. So make sure you are registered to vote at your current address.

Protect your ID

Watch out for unfamiliar or suspicious entries in your credit report, such as an account you didn't open, a sudden surge in the amount you owe or new applications you didn't make – they could mean you're a victim of identity fraud. Contact the relevant lender at once, explain your position and be prepared to provide proof that you aren't responsible.

Other issues

No credit history

If you've never borrowed before, lenders have no way of predicting how reliable you will be in the future and may therefore reject you.

Credit blacklist

These apparently just don't exist. Each lender will use different criteria to establish whether or not to lend to you and there is not a one size fits all approach.

Good payer/low credit score?

Apparently if you pay your bills on time your score will not be adversely lowered. However, we stand by our comments on the first page regarding those individuals who lenders themselves will find attractive propositions.

Individuals should therefore review their own retirement planning at the earliest opportunity to ensure that some sort of retirement savings pot is likely to be available. Our financial planning service should help individuals to plan for their retirement as it looks at all aspects of an individual's financial position.

If you have any questions or need an independent review of your financial planning arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser regulated by the Financial Conduct Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.

