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Season 1. Taking more control of your money

Episode 6.

Building a good credit score

Hi there, it's Jason here and in this Money Insight we're going to explore credit scores. What they are, why and you'll want to have a good one, and how to check yours *and* improve it if you need to.

So far, in these Money Insights we've talked about controlling your spending, paying down any expensive debts you might have and building up your cash reserves to a level which gives you some peace of mind that you've got the money you need, in the event of a minor emergency, like a breakdown with the car or the boiler. And those cash reserves are vital to help you avoid the need to use expensive credit to deal with life's little emergencies. That said, the truth is that most of us will still need to make use of credit in some form or another at various times in our lives.

And whether you're applying for a credit card or loan to replace expensive debts you have today, or you're applying for a new loan for a mobile phone contract or a loan to buy a car or a mortgage to buy a home, you'll want a good credit score to get the credit you want when you want it and at a fair price. So, let's look at how credit scores (and credit reports) work and then see how you could improve yours if you need to.

In simple terms your credit score really is just a score. It's a single number produced by a credit scoring agency to help lenders assess the risks of lending to you. And whilst it's not the only factor that lenders consider, your credit score and your credit report will heavily influence their decision on how much money, if any, they'll lend you and what they'll charge you for it. Your credit report by the way simply holds a history *of* your credit scores over time together with other information to help lenders assess your credit worthiness. So, it's very important to build a good credit score if you don't already have one and to maintain it into the future.

Now, before you go off to check your credit score it's important to know that you may have more than one! And that's because there's more than one credit scoring agency. In fact, as we record this video there are three main credit scoring agencies here in the UK, Equifax, Experian and CreditCall, and each one uses a different scoring system. Yes, I know, that sounds like it could be confusing but the KEY thing to understand is what a good score looks like with each of these agencies. And that's quite easy to find out.

At Equifax, for example, they have a maximum credit score of 700 and view a score above 420 as good, or a score above 466 as excellent. On the other hand, the scoring system at CallCredit is a simple scale of 1 to 5, where 5 is excellent and 1 is very poor. So, be sure not to comment if a friend tells you their credit score unless you know the agency it's from. You can learn more about the differences between the three main agencies and what information you can access for free by the links in the resources area of the Salary Finance website.

And just remember if you have a good score with one of the main agencies there's a good chance that you'll also have a good score with your lender. You can get your credit reports sent to your home address from any of the agencies for a very small charge. And it's certainly a good idea to get a report and check it for errors that could damage your credit score. I'll come back to that in a moment.

The agencies themselves tend to charge an ongoing fee for access to all their services. But you may be able to access your current credit score online for free by signing up to a trial subscription. Just be sure to cancel that subscription before the payments start if you don't want all their 'live' services. And check out what ongoing access to your recent scores and reports you could get for free from the credit agency partner sites. The partner site for Equifax is ClearScore; for Experian it's MSE's Credit Club; and for CallCredit, it's Noddle. And there's more information in the resources area as usual.

Okay, so how can you build a good credit score or maintain a good one if you have one already? Here are some solid ideas for that. Keep your credit card active. Use it, ideally, for a small amount of spending and pay it off each month to show you're able to pay back your debts. If you need to hold some debt on your credit card for a while, try to keep it below 50% of your limit and below 30% if you can. Using most of your available credit limit can hurt your credit score even if your limit is low. And please be aware that asking for a high limit to solve this problem might not achieve

what you want, especially if your request suggests that you're getting financially stretched. So, aim for a middle ground and only ask for a credit limit that supports your essential financial commitments.

All your borrowings in the financial system appear on your credit report. So, that includes mortgages, personal loans, credit cards, mobile phone contracts, overdrafts, store cards and more. Any late payments also appear on your credit report and will damage your score. So, minimise the risk of making late payments and don't rely on your memory of when a bill arrived in the post. Pay your bills automatically using direct debit wherever possible. Show your home is stable by signing up to the electoral roll. If you're name's not on it, you'll find it's harder to get credit.

Ask for a copy of your credit report and check for any mistakes even a slightly wrong address can impact your credit score. So, check your details and report any errors. For example, if your credit report shows that you have a financial association with an ex-partner, this could cause you a problem. If your ex has a poor credit rating themselves, then your credit score could be dragged down too. So, be sure to fix any errors like that in your records using the guidance in the resources area of the website.

If your credit report shows that someone's applied for credit in your name tell Action Fraud immediately and ask the credit scoring agency to update your file. You don't want to get rejected on an application for credit or pay too much interest on what you borrow. So, do what you can to get your credit report in good shape long before applying for new credit. And use the free online eligibility checkers to see your chances of getting a top credit card without making any formal applications and risking damage to your credit score.

Finally, if you're struggling to improve your personal credit score, consider getting a credit-building card. These cards are designed for people with very little or poor credit history. And whilst the credit limits might be low and the interest rates quite high, if you need and occasionally use such a card and you pay off your bills each month, you'll prove that you're creditworthy and increase your credit score over time. And that will improve your chances of getting reasonably priced loans in the future.

Okay, so that's all for now on credit scores and reports. I wish you the very best with your efforts in this area and please remember that this is often a long-term game. Next time we're going to look into the very real value and often low cost of insuring against disasters on your most important asset,

you. See you back here when you're ready for that. All the very best for now.

End

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