



# AHO Credit Rating Fact Sheet

Version 1, March 2021

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*Please note that this Fact Sheet provides general information only. Before making any financial decisions it is strongly recommended that you seek independent financial advice on your situation.*

## What is a credit rating and what do they do?

A credit rating is an evaluation of an individual's risk of a prospective debt that a financial provider will use to determine whether they will provide credit. The evaluation helps determine the individual's ability to repay the debt and helps with forecasting the likelihood of the individual defaulting on the credit provided. The credit rating is scored and depending on what your score is, this shows how trustworthy you are judged to be as a borrower. The higher your score is, the more likely you may be provided with credit.

## Where do I go to find out about my credit report?

There are a number of agencies that you can go through to find out about your credit report however, Australia's leading credit information company is:

Equifax – Credit Reports, Credit History and your Credit Score at [www.equifax.com.au](http://www.equifax.com.au) or call 13 83 32 (*personal; option 2*)

It is free and available within one (1) business day, as long as your identity can be confirmed.

## What is a good credit score?

The Equifax Score is a number between 0 -1200. In simple terms, the higher you're Equifax Score, the better your credit profile and the lower the credit risk.

A higher credit score is considered better as it indicates a lower risk for the financial institution. The credit score helps financial institutions decide whether they want to lend to you or not and, in some cases, can affect how much they will lend to you and the rate and terms that they offer you. A credit score is only as accurate as the information that it has been based on.

## How do I improve my credit score?

If you would like to improve your credit score, there's things you can do, for example:

- Pay your bills on time

Be mindful of applying for credit unless you really need to. Also, be aware that each time you apply for a credit card, loan, and so, whether approved or not, it will show up on your credit report, which may affect your credit score. If there are a lot of credit applications on your credit report, a Lender may see this as a negative if it is additional credit. Sometimes applying for a loan to consolidate debt is seen as a positive, which could improve your score, provided you pay down the debt and not just move it around. Before making any financial decisions it is strongly recommended that you seek financial advice on your personal financial circumstances and what is appropriate for your situation.



- Pay down existing loans and debts. Making regular loan and credit card repayments consistently and on time. Even after a credit account has been repaid, it will remain on your credit report for some time and can reflect on your credit score.
- Seeking the assistance of a financial counsellor.
- Check your credit report for any errors. If your report contains errors, it could significantly affect your credit score. Examples of errors are:
  - Incorrect debt amounts or duplicate debt listings
  - Debt you didn't take out is shown (identity theft or fraudulent activity)
  - Repayments you made not being recorded.
- Hold on to credit cards you can manage. If you can manage and pay off a credit card each month, it can be beneficial to your credit score. This demonstrates that you can manage debt responsibly.
- Lower the credit card limit. Reducing the limit can be seen as positive action that will be recorded on your credit report.

### How do I address any issues on my credit report?

If there are issues or errors on your credit report, consider contacting the credit reporting agency, i.e. Equifax, who may be able to investigate on your behalf and have the issues removed. You should explain in writing what you think is wrong and why, and include any documentation you have to support your dispute. The dispute will generally be investigated within 30 days of receiving it.

### How do I clear any defaults that may be on my credit report?

Firstly, you need to contact the credit provider about the default and question as to why there is a default (especially if you were not aware of it) and what you can do to clear it. If the default is correct, most credit providers will either want you to pay it out in full (if you can) or you may be able to enter into a repayment plan.

### I have a good credit score but still did not get a loan?

When you apply for credit, the credit score is not the only piece of information a lender will look at when assessing your application. They will also look at whether you can afford to repay the loan based on your current income, savings and expenses and your repayment history on existing or previous loans/credit cards/etc. You will also need to meet the lender's internal criteria and their assessment on whether they consider that you can afford to repay the loan. If you don't meet the lender's criteria, they may not approve the loan no matter what your credit score is.

### What factors are taken into consideration when your credit report is generated?

- The type of credit provider making an enquiry on your credit score as there are different levels of risk associated with a home loan, to a credit card, to a store finance card. Non-traditional lenders may have a different level of risk compared to a bank or credit union.
- The type and size of the credit applied for. As mentioned, a home loan and a store finance card may carry different levels of risk for the lender.
- Every time you apply for credit and a credit provider obtains a copy of your credit report, the enquiry is added to your credit report. This can be any loans, credit cards and utility providers such as Telstra. Shopping around for credit may impact on your credit report negatively within a short space of time. It may flag you as a greater risk than someone who infrequently applies for credit.
- The age of your credit report may affect your credit score as a relatively new file may indicate a different level of risk than an older report.

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- The activity of enquiries over the credit report's 'life' may impact your score, so if you have a fairly new file with many enquiries, it may indicate a higher level of risk compared to an older file with minimal enquiries.
- Your score also takes into consideration personal details such as length of time at address, age and length of employment in assessing you and your level of risk.
- Default information, court writs and default judgements may negatively impact on your credit report whereas lack of default information may positively impact.