**Understanding your credit score and how it works**

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What is a credit score? A credit score, also known as a credit rating, is a number that reflects the likelihood of you repaying money you want to borrow. Lenders like banks and credit card companies will look at your credit profile and calculate your credit score based on that information as well as their own, which will show them the predicted level of risk in lending to you.

The higher your credit score, the better your chances of being accepted for credit at the best rates. A decent credit score is essential for you to obtain credit because the higher it is, the less of a credit risk you are. Credit providers also "cost" for risk, which means that you may also be in a better position to negotiate more competitive credit rates if your risk profile is lower. There are primarily two types of credit scores, general bureau scores and custom scores:

***General Bureau credit scores*** are provided to you by credit bureaus. The score on your credit report is a general guideline to your risk profile. Each bureau has its own scoring calculations and scoring bands, so your score can be different from bureau to bureau. For example, a 650 score at one bureau can be the same as a 400 score at another bureau.

***Custom credit scores*** are developed for use by individual lenders. They are unique to the specific business and risk appetite of that lender. They rely on credit reports and other information, such as account history, from the lender's own portfolio to calculate the score. Custom credit scores can apply to specific types of lending, such as home loan lending or vehicle finance.

**Credit Score Factors and Improving Your Credit Scores**

There are a number of factors on your credit report that shape your credit scores. Some factors that may affect credit scores are:

- How well you pay your accounts
- Your total debt
- Types of accounts held
- Number of accounts
- High usage of available revolving credit
- Late or missed payments
- Age of accounts
- Court orders, administration orders and judgments
- Debt review
- Multiple enquiries for credit within a short period of time

This isn't a full list of factors that could affect your score; however, they do indicate some of the elements of your credit history that could affect your credit score at the time it was calculated. They also tell you what you should address in your credit history to become more creditworthy over time. Monitoring your credit on a regular basis can help you keep a close eye on how these factors are affecting your score and what you may be able to do to improve your score.

**Common tips to build a good credit score**

- The first thing any lender wants to know is how well you repay your accounts. Repayment history is, therefore, in most cases, a strong factor in scoring. It is, therefore, key that you pay your instalments on or before the due dates and never ever skip any payments even in the event that you made a lump sum payment during the previous month that will cover the payment for the following month
- Credit usage of your credit cards and store cards is another important factor. If you are using 30% or more of the credit line available to you, it can be an indication of risk. The rationale is that you are heavily reliant on all the credit that is available to you and that you are likely to "max out". The rule of thumb here is to use your credit accounts responsibly. You should, however, ensure that you keep those balances to 30% or less of the credit limit and make your minimum payments on time every month. Always remember that, in most cases, interest is paid on these credit accounts.
- Length of credit history is another important and often misunderstood scoring factor. Consumers are following advice to open accounts to better their scores; however, this is not going to automatically improve your score. You will have to display good repayment behaviour for at least six months to a year under the specific account in order for your score to build up significantly. You must, therefore, very carefully weigh up your actual need for and ability to repay an account before opening it. Similarly, if you are in arrears and pay your account in full, it can still take a few months for your credit score to show a change because the historical negative repayment history will still impact your score as a prediction of future repayment behaviour.
- Another scoring factor is mix of credit. Different weightings are attached to different types of accounts. Generally, the weighting of the different types of accounts is dependant on what the score needs to consider. For example, at a retail credit provider, revolving credit accounts (store cards) and credit accounts (credit cards) could hold the most weighting. A home loans provider would weigh secured loans (such as mortgages or vehicle finance) more than other types of credit. Usually, service-related accounts, such as cellphone and insurance accounts, have a low weighting. Again, the advice is to not apply for credit that you cannot afford or have no need for purely to boost your score.
- Scores also look at new credit. Opening several credit accounts in a short period of time may have a negative effect on your score – especially for people who do not have a lot of credit history. This effect should, however, balance out as you build up your good repayment behaviour under these accounts.
- Other types of negative or adverse information such as judgments, sequestration orders, administration orders, trace alerts and debt review statuses also have a negative effect on a score.

All credit has the potential to be good or bad; to build up a good credit report and score, consumers need to ensure that they are paying their full instalments on time, not missing any payments and can afford the credit they take out for the full term.

You can get a free credit report from Experian - go to [My Credit Check].

**- ENDS -**

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