

Q1. What is Credit Scoring?

A credit score is a mathematical formula that uses complex algorithms to assess individual loan application data against 'Score Cards' that consist of a range of historical industry data. The resultant credit score outcomes are used by credit providers and lenders mortgage insurers (LMI) to establish a risk profile for each prospective borrower and the loan/s being applied for.

Credit scores are one of the core factors used in evaluating whether or not to provide finance to a particular borrower or borrowers. They are designed to measure the likelihood of default based on data contained in a loan application, when compared to historical industry norms.

To create a credit score for a particular loan application, credit and LMI analysts use information in the applicant/s credit reports, account histories and the application data itself. The primary purpose of credit scoring is to establish a basis upon which each loan application can be measured against industry norms for acceptable risk. The credit score applied to a loan application is measured on a sliding scale which determines whether the requested loan is 'system approved / declined' or can be referred to senior decision makers for manual assessment.

Q2. Who uses Credit Scoring?

Most lenders, (including the major banks in Australia) and all lenders mortgage insurers use credit scoring. Allstate Home Loans do not apply credit scoring to its loan applications, but where LMI applies, lenders mortgage insurers do (i.e. > 80% LVR on some loans). Most lenders use Equifax when undertaking credit history checks, whilst some use either of Equifax, Experian or Illion. Lenders mortgage insurers variously use Equifax, Experian and Illion.

Allstate Home Loans currently offers certain loans up to a 95% LVR without mortgage insurance or credit scoring (Refer to your authorised Allstate Home Loans BDM for details).

Q3. Where can I access my Credit Reports or Credit Score?

You can access your credit reports from Equifax, Experian and Illion (previously Dun & Bradstreet). Lenders and LMI's do not provide scores or reports and under the Privacy Act 1988 (as it presently reads) borrowers are required to source their own credit reports directly from the above providers where they wish to view their report or where their loan application is declined due to an unsatisfactory credit report. Individuals can obtain access to their credit history file via the following links;

Equifax : www.equifax.com.au

Experian: www.experian.com.au

Illion: www.illion.com.au

Visit the following websites for your credit score:

www.creditsavvy.com.au

www.getcreditscore.com.au

www.creditsimple.com.au

Q4. What makes up a Credit Score?

The key components assessable when credit applications are assessed for credit scoring include:

Credit arrears	Credit defaults, judgements and overdue credit accounts
Credit History – adverse and positive	Previous account history in the last 2 years.
Employment stability – changing jobs in the last 12 months may affect your score.	Residence Stability – changing address in the last 12 months may affect your score.

Past credit activity – particularly the number of enquiries in the 12 months prior to the current credit application (includes credit cards, car loans, mobile phone accounts, etc) but may also consider credit history over the past 3 – 5 years.

Q5. Why are Credit Scores different between lenders and mortgage insurers?

Each user of credit scoring technology creates their own sets of algorithms (score cards) which are unique to their business requirements and may include:

Exposure to risk by industry (e.g. mining: where it is a single industry town)	Exposure to risk by region or postcode (e.g. Karratha WA 6714)
Previous account history across all accounts with a particular lender – no time limits.	
Previous account history across all accounts with lenders under the same group umbrella (e.g. Westpac, St. George Bank, Bank SA, Bank of Melbourne, RAMS)	

Q6. Do all lenders use Credit Scoring?

No. Check with your mortgage broker or authorised Allstate Home Loans representative. Allstate Home Loans do not use credit scoring, but some loans that require mortgage insurance will be credit scored by the lenders mortgage insurer. This information is correct at the time of writing, but subject to change in the future without notice.

Q7. What happens if my loan application is declined due to Credit Scoring?

A credit enquiry will appear on your credit report with Equifax, Experian or Illion (depending upon which reporting agency is used). Credit enquiries for a particular loan application may be undertaken by the lender or LMI or in many situations, both. All credit enquiries will appear on your credit file and may affect your ensuing credit score from time to time (depending on the number and timing of each enquiry). The outcome of your credit score can also affect your chances of having a loan approved with subsequent lenders / LMI's, where one lender has declined your application and you subsequently approach another lender. For further information, check with your broker or authorised Allstate Home Loans credit representative about the range of options available from Allstate Home Loans Limited.

Q8. How long does it take for my Credit Score to "Auto Correct"?

Your Credit Score will "auto repair" to a certain extent after 12 months, provided you maintain stability of employment and residence and limit the number of credit enquires made. Paying your accounts on time or before due date will also assist. Any defaults (e.g. Telcos or utilities) will remain on your report for 5 years from the listing date and continue to adversely impact your credit score during this period. Note: Credit scores can change weekly or monthly.

Q9. I am a good customer with clean credit – why have I been declined?

The credit scoring system is not perfect and is designed to reduce risk to the lender and ensure borrowers obtain credit facilities that are considered 'Not Unsuitable' in terms of the National Credit Code 2009'. An example of what outwardly seems a strong application that was declined is listed below (Details are fictional and used only for the purposes of this information bulletin);

'A single male applicant is living at home with parents on a good income (\$100k +) working in the mining industry. He has a small credit card with a \$Nil balance, \$50,000 cash at bank and owns his car outright as well as some other possessions. He wishes to buy an investment property for \$400,000 and borrow \$380,000 (95% LVR) on interest only terms for the first 5 years to maximize the negative gearing benefits. Stamp duty and purchase costs to be paid from cash reserves.' Whilst the above application makes perfect sense, the profile for this group is amongst a high risk category for the following reasons:

▪ Single male applicant	▪ Mining industry
▪ Does not have his own home	▪ 95% LVR on interest only
▪ Buying an investment property	▪ Location of the proposed purchase

We have experienced situations where loan applications that may be considered by many borrowers to be 'strong', actually being declined due to unsatisfactory credit scores that reflect demographic or situational circumstances prevalent to the detail of an application. Allstate Home Loans' authorised credit representatives and BDM's are experienced and trained to examine your particular credit requirements and identify issues that may affect your ability to obtain the loan you are seeking, or more particularly a loan that is 'Not Unsuitable' for your needs and financial position.

Things that may adversely impact your Credit Score for a mortgage application:

🔥 Credit Card balance transfers	🔥 Interest Free purchases (e.g. Afterpay, Certegy)
🔥 > 4 credit enquiries in the last 12 months	🔥 Pay Day Loan enquiries (e.g. Nimble, Cash Converters)
🔥 Changing jobs in the last 12 months	🔥 Changing residential address in the last 12 months
🔥 Multiple credit enquiries from car dealerships when car shopping	🔥 Monthly enquiries from credit card providers (e.g. Amex, Citibank, HSBC)
🔥 Enquiries from online betting agencies (e.g. BetEasy, Ladbrokes, Sportsbet, etc.)	

Your Local Broker

Name:	
Phone:	
Email:	

Disclaimer

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