How do credit lenders use our credit scores? **Gregor Mowat**

Growing and maintaining a good credit score is something we should all be doing to make sure we have access to the financial resources we need to achieve our goals. But, it’s also important to understand what lenders look at when deciding whether or not to approve our loan or credit application.

Have you ever found yourself standing in a mobile phone shop waiting to set up your finance agreement for your shiny new iPhone, sweating as the friendly person serving you assures you that they are just putting you through a quick credit check? It’s a strange feeling because even though you’ve just checked your app that tells you that your score is ‘excellent’, this doesn’t always mean that lenders agree with the numbers.

So what are lenders looking at and why is it different to what we see ourselves?

Anyone offering credit is likely to check your credit history, which includes anything from a mobile phone contract to paying your utilities in monthly instalments. You may even find that landlords may want to check your credit history to make sure you will be a good tenant.

Lenders use credit reports to assess whether we are reliable, stable and don’t already owe more than we can repay comfortably. To calculate the chances that you'll make your repayments, they take the information in your application form and credit report and allocate each item a value. They then use a unique formula to calculate whether you meet the threshold conditions to be approved for the credit you are applying for.

So what does this have to do with your credit score? The answer is more complicated than we would like, so bear with us.

The process we described above is how lenders themselves make decisions about whether we will be approved or rejected for credit. But each lender has a slightly different set of criteria when it comes to approving or rejecting applicants. So to you and me, as consumers, there is very little way of us knowing whether the information in our credit history is good enough to pass the check. To try and cast some light on this, the credit reference agencies started offering us ‘scores’. A number on a scale that helps us to understand whether our credit histories are good, or bad, relative to other people. These scores are helpful in so much as they give us consumers something to measure and understand. But they are not what lenders use when making decisions.

Your credit score will change over time as your circumstances change. So, if you pay off a loan or your credit card balance, this is very likely to improve your score, but missing your repayments could cause it to fall.

So next time you are stood waiting for the results of your credit check, just know that the lender isn’t sat there flipping a coin to decide whether or not you can get your mobile phone on credit, they are following a formula that takes into account your hard work at building your credit history and also how much you are looking to borrow to decide if you’re worth lending to.