



Know the score: how positive data could impact your next credit application



Credit applications and your data

When you apply for credit in Australia, you will usually be asked to permit a credit provider to obtain and assess the information in your credit report to help them determine whether you can manage to repay the loan without too much pressure. This is an important part of the process of their decision to approve your application.

Until the reform of the Privacy Law in 2014 credit providers based their assessments of you as a potential borrower on whether you had any negative information on your credit report. The information included was limited to basic things like the number and type of credit applications you had made (but not whether they were approved or not) and details of any overdue debts, defaults, bankruptcy, or court judgments against you.



Now that the Federal Government has set a new 2017 deadline to encourage credit providers to start sharing more positive data, it's important for all Australians to understand how their financial history may impact their next credit card, loan or mortgage application.

Positive data now increasingly available

Also known as Comprehensive Credit Reporting (CCR), positive credit reporting is increasingly available in Australia. This new credit reporting system makes it easier for lenders to make a more comprehensive assessment of your credit history when you apply for credit. Credit reports now increasingly include information about the current accounts you hold, what accounts have been opened and closed, the date that you paid any default notices, and how well you meet your repayments.

The Federal government is encouraging credit providers to meet a deadline of December 2017 for greater participation in positive credit reporting. This is expected to fast-track Australia's transition to positive credit reporting, in line with many other developed nations like the UK and the USA where borrowers with strong credit histories can use this information to seek out better credit offers.

How does positive credit reporting help borrowers?

Under the positive credit reporting system, when you apply for credit, lenders you have authorised to do so will be able to see if you have been repaying your credit card, personal loans or mortgages on time over a period of up to 24 months and when you have paid off a credit account.

Under the negative reporting system, a credit report wouldn't show any information about how diligently a person had been paying off a mortgage. But when new positive data is shared, a lender will be able to obtain a much more comprehensive picture of a person's repayment history.

The wider availability of positive credit reporting information will help borrowers with a strong track-record of making timely credit repayments be better recognised by lenders. Australians with a strong credit history could also potentially access more competitive deals and interest rates. More detailed data sharing will also assist others to avoid entering into levels of debt they may find unmanageable, which could lead to getting into financial difficulty.

Positive data may also help potential first home buyers who don't have a long credit history but do have a sound one, to be approved for finance, where previously they may have been declined.

What's in it for the banks?

It might come as a surprise to people that Australian credit providers not sharing positive credit information have less visibility of how indebted a borrower is because under negative reporting a borrower's credit file doesn't have information on credit limits, repayment history or account open and close dates.

As more positive information is shared, credit providers will be able to better identify and evaluate whom to provide credit to, based on a broader range of data.

Positive data gives credit providers a much more comprehensive view of their customer's financial situation, creating an environment to support their responsible lending decision around the level of debt the borrower could manage without undue financial pressure.

This can help reduce the number of people who may default on a loan, increase competition among credit providers and potentially drive down the cost of credit for many credit customers.

Despite low awareness about the transition to positive credit reporting, 70% of Australians surveyed support the new positive data sharing system:



39%

are supportive of more data sharing on condition data is kept safe



30%

want to negotiate lower interest rates based on their strong financial history



29%

want to increase the likelihood people with strong credit histories can be approved for credit



27%

want fewer people to get themselves into bad debt positions

Why every Australian should care

More than ever before, your financial history counts when you apply for credit. Lenders will increasingly take into account your available repayment history when deciding whether or not to give you credit.

Although positive data isn't yet being widely shared amongst the majority of credit providers right now, the momentum is growing especially here at the Experian credit bureau. All Australians need to be aware that their credit repayments today, can impact their credit scores and applications for credit now and in the future.

Credit applications with positive data

Below are six examples of possible credit provider assessments of negative and positive credit reporting data (This information would be used by lenders in combination with other considerations).



Negative Data (only)

Negative data	No defaults	No defaults	No defaults	\$500 default <small>Paid 18 months ago</small>	\$500 default <small>Paid 18 months ago</small>	\$500 default <small>Paid 18 months ago</small>
Initial decision	✓	✓	✓	✗	✗	✗

Comprehensive Data

Negative data <small>Same as above</small>	No defaults	No defaults	No defaults	\$500 default <small>Paid 18 months ago</small>	\$500 default <small>Paid 18 months ago</small>	\$500 default <small>Paid 18 months ago</small>
Additional positive data	1 Credit card account up to date	3 new Credit cards account up to date	1 Credit card 3 periods down	1 Credit card low limit	1 Credit card low limit	1 Credit card 3 periods down
Repayment history	Strong	Inconsistent	Overall weak	Consistent	Consistent	Overall weak
New insight	POSITIVE TRENDING	POTENTIALLY OVER COMMITTED	NEGATIVE TRENDING	REPAIRED CREDIT	POSITIVE TRENDING	NEGATIVE TRENDING
Potential new decision	✓	✗	✗	✓	✓	✗

So, what should you do now?

- 1 With credit providers looking back at up to 24 months of their credit repayment history, borrowers need to start looking after their future credit score by diligently making repayments on time.
- 2 Your credit score can change over time, so check your credit report information regularly. As new positive data elements are factored into credit reports, now is an even better time to regularly check the information on your credit file to make sure it is correct.
- 3 Always try and pay bills on time to help protect your credit score. Paying bills significantly late and multiple late payment notices can negatively impact your credit rating.



Find out about your credit score

Being aware of what your credit score is and how your financial decisions impact your credit report is important for all Australians to understand.

It helps you to work towards addressing any issues before applying for a new credit card, loan or mortgage.

Surprisingly the majority of Australians Experian surveyed have never checked their credit score.

Australians should check their credit report regularly and they can do this at any time free of charge by contacting Experian or by creating a free credit profile with Experian partners like creditsavvy.com.au that can help you monitor your Experian credit score and credit file information.



71% of people have never checked their credit score before

32% don't know how to

24% don't know what a credit score is

13% hadn't got around to it yet



Asked what financial activities they think improves their credit score:

86% Incorrectly believed paying their utilities bills on time improved their score

26% Incorrectly believe having high value assets improves their score

19% Incorrectly believe getting a pay rise improves their score



However, when asked what worsens a credit score:

70% correctly identified "Not paying a bill for so long a debt recovery agency contacts you.

58% correctly identified defaulting on a loan

40% correctly identified making a high number of credit applications in a year



Negative reporting system

WHAT IMPACTS YOUR CREDIT SCORE*

Paying a default
increase score

Negative data expires and is removed from your credit report over time
increase score

Multiple credit applications in a short space of time
decrease score

Default (impacts report for 5 years)
decrease score

Court Judgements
decrease score

Bankruptcy Actions
decrease score

Not paying a bill that goes to a debt recovery agency
decrease score

Short term credit (eg. Pay day lenders)
decrease score

WHAT DOESN'T IMPACT YOUR CREDIT SCORE*

A late utility or phone bill repayment (unless you default)

Getting a pay rise

Having high value assets

Changing jobs

New Positive Credit Reporting system

WHAT IMPACTS YOUR CREDIT SCORE*

The same matters as under negative reporting, plus:

Adding a new credit account
increase or decrease score

History of making credit repayments on time
increase score

Bringing accounts back up to date
increase score

Having too many open credit accounts
decrease score

Having too much unsecured credit (eg credit cards)
decrease score

Having too high a combined limit on credit accounts
decrease score

WHAT WON'T IMPACT YOUR CREDIT SCORE*

Getting married

Getting a copy of your credit report from a bureau

Having a lot of money in the bank

Having (or not having) dependents

* A score may go up or down because of new information, but not always. For instance, if you already have a very low credit score, a new default may not lower your score any further; similarly, if you already have a very high credit score, continuing to make your payments on time may not make your score go any higher.

About Experian

Experian Australia Credit Services Pty Ltd is part of Experian®, the world's leading global information services company. Experian Australia Credit Services empowers consumers and our clients to manage their data with confidence. We help individuals get the information they need to enable them to take better control of their finances including to acquire the knowledge about their credit history to assist them to make smarter decisions and thrive, and lenders to have the data they need towards meeting their responsible lending obligations.

Globally, the Experian group of companies employ 17,000 people operating across 37 countries and every day we're investing in new technologies, talented people and innovation to help all our clients maximize every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index. Learn more at www.experianplc.com or visit our global content hub at our global news blog for the latest news and insights from the company.



Legal Disclaimer

The information contained in this report is for general guidance on matters of interest only and has been prepared without taking account of the objectives, financial situation or needs of any particular individual. For this reason, any individual should consider the appropriateness of the information, having regard to their objectives, financial situation and needs and, if necessary, seek appropriate professional advice. The changing nature of laws, regulations and rules, and of economic trends and the variables impacting them across different geographies, may mean it contains some omissions or inaccuracies. The information given is provided "as is", and without warranty of any kind, express or implied, including, but not limited to warranty of fitness for a particular purpose. It is not intended to represent legal, credit risk, economic or other professional advice. In no event will Experian or its related partnerships or corporations, or its partners, agents or employees be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages.

*About the research: Survey conducted via Pure Profile in March 2017 using an online survey method. Survey completed by 1,003 Australians representative of the nation as a whole aged 18 and over.