



# House of Commons

## Treasury Committee

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# Credit Searches

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## Written Evidence

*This is a volume of submissions, relevant to the inquiry Credit Searches, which have not yet been approved for publication in final form. Any public use of, or reference to, the contents should make clear that it is not yet an approved final record of the written evidence received by the Committee.*

*Only those submissions written specifically for the Committee have been included.*

# List of written evidence

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	<i>Page</i>
1 Experian	3
2 Information Commissioner's Office	26
3 Equifax	32
4 Moneysavingexpert.com	38
5 Callcredit	61
6 Confused.com	67
7 Council of Mortgage Lenders	70
8 British Banker's Association and UK Cards Association	76
9 Office of Fair Trading	78
10 Finance and Leasing Association	80
11 Monaysupermarket.com	84

## Written evidence submitted by Experian

### About Experian

Experian is the leading global information services company, providing data and analytical tools to clients in more than 65 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March 2009 was \$3.9 billion. Experian employs approximately 15,000 people in 40 countries and has its corporate headquarters in Dublin, Ireland, with operational headquarters in Nottingham, UK; Costa Mesa, California; and São Paulo, Brazil.

For more information, visit <http://www.experianplc.com>.

Experian is the largest credit reference agency ('CRA') out of the 3 consumer credit reference agencies operating in the UK, supplying c70% of the shared personal data used for credit underwriting by the UK financial sector. This amounts to some 150m credit enquiries each year. Experian also provides data for a variety of other purposes such as identification checks for the prevention of money laundering as required under the Prevention of Money Laundering Regulations.

### Executive Summary

1. The Treasury Select Committee has sought information on the impact on consumers' credit ratings of shopping around for credit and the extent to which lenders use quotation searches.
2. Whenever a consumer's credit file is accessed a search footprint is recorded. There are many different types of footprint and, at Experian, only credit application searches are shared with lenders and used in application scorecards.
3. Shopping around for credit is encouraged by all consumers advisors but it is important to note that this does not involve actually applying for credit. Shopping around is about looking for the best product and price before actually making an application to see if the lender will offer it to the consumer. In most cases, a consumer can find out the price quite easily but, if the price is based on risk, then the lender may need to access the consumers' credit file in order to give a price quotation.

4. In 2001 the Information Commission raised this with the credit industry and credit reference agencies, including Experian, created a new search type called a quotation search for lenders to use in these circumstances. Rules for the use and recording of such searches were jointly agreed between the ICO, the FSA, the CML and the credit reference agencies.
5. Experian has communicated with all clients on numerous occasions to advise them that if they offer rate for risk products they should be using quotation searches if they need to access consumer credit files. FSA Mortgage rules make it clear that mortgage lenders must use quotation searches and guidance from the (then) DTI recommended that unsecured lenders do likewise.
6. Many Experian clients are using quotation searches although it is impossible to confirm whether every organisation that offers rate for risk products is using the system there is little evidence of significant deviation from the guidance.
7. Importantly, there are very few complaints from consumers about the number of searches that are recorded.
8. Lenders are also keen to monitor each other and Experian has on a number of occasions investigated the processes of lenders to ensure that the industry agreement is being followed.
9. In Experian's view, quotation searches are being widely used and there is little evidence that consumers are being disadvantaged by the current system. Searches are predictive of risk and, in some cases, possible fraud and are only used in scorecards, not as a decline rule for example. They tend to only have a significant impact when present in large numbers and in conjunction with other risk predictive data where they will have a cumulative impact.

**BRIEFING TO THE TREASURY COMMITTEE  
ON  
CREDIT SEARCHES**

**Purpose of this briefing**

1. To respond to the Treasury Select Committee Inquiry into credit searches and to explain the background and rules associated with the registration and use of credit searches.

## What is a credit reference agency?

2. A credit reference agency collects, matches, derives, merges, and supplies data to organisations to help them make decisions about whether to give, or continue to give credit to individuals and/or businesses. They create and hold databases of people and/or businesses operating within the country in which they operate so, for example, the CRA operated by Experian in the UK will only hold data on people and businesses with addresses in the UK.
3. Credit reference are third party custodians and providers of information and services and do not make the decisions themselves. Neither do they set the policy for the lenders and are not therefore part of the final decision as to the level of risk or otherwise that a lender is prepared to accept.
4. In addition to using the data for making decisions about credit, in some countries, including the UK, the data may also be used for other purposes such as performing Identification (ID) checks, tracing debtors, offering new products to existing or new customers, checking employees and preventing and detecting crime and fraud.
5. In the UK, credit reference agencies collect and hold public and private data as follows:

### Public

Electoral Register (full)

County Court Judgements

Bankruptcy, IVA, and other insolvency data

### Private

#### Credit agreements

- a. Limits
  - b. Utilisations - balances
  - c. Payment performance – whether the payment was made as expected and for credit cards only, whether they were paid in full, in part or the minimum and whether cash has been drawn and if so, how much and how often.
  - d. Other information such as special arrangements, Debt management plans etc
6. In addition, credit reference agencies derive intelligence from the data and from changes in the data. This will create links between names (as people change their names) and between addresses (as people move address). Searches, and in particular credit searches,

provide information on the applicant and also on how often they are applying for credit as well as information on the type, amount and term of the credit they are seeking.

7. The private database known as CAIS (Credit Account Information Sharing) is shared for specific and notified purposes and may only be used in accordance with the cross industry rules on data sharing known as the *Principles of Reciprocity*. For the most part, the rules specify that the data may only be made available to those organisations that share data and furthermore, that data may only be obtained to make decisions about accounts that are themselves shared.
1. All of this information is collected, processed and used in ways which are clearly notified to consumers as part of the credit application process. Lenders are obliged under the terms of the Data Protection Act 1998, to obtain the consent of the data subject before undertaking a credit search and to notify them how their data will be used. All of this information will be contained within the *Privacy Notice* contained within the lenders' application form or procedure. An example of the model privacy notice for the credit industry – which is agreed with the Information Commission – may be found at [http://www.experian.co.uk/www/pages/responsibilities/compliance/fair\\_obtaining\\_clause\\_s.html](http://www.experian.co.uk/www/pages/responsibilities/compliance/fair_obtaining_clause_s.html).

### **What is a credit search and why are they used in credit decisioning?**

8. The Data Protection Act requires that an audit trail of who accesses an individuals' credit file be retained. Credit reference agencies record “searches” of consumer files and also the date, purpose and name of the organisation conducting that search. So for example, when a consumer asks for a copy of their own file, a particular type of search footprint will be recorded to show that has occurred.
9. Consumer files are accessed for a variety of purposes but the only search type that is shared with lenders and may be used in lending decisions, by Experian clients, is the *application or credit search*.
10. Credit application searches show that an individual has applied for credit. When lenders build their decision systems they will analyse all data available from a credit reference agency to determine if it is predictive in making decisions. Ever since they have been available, credit application searches are consistently shown to be predictive of risk. How predictive and how much risk will depend on other information or characteristics too. However, in general, the reason why searches are predictive is that, in general, consumers only make large numbers of applications for credit if they are being rejected by other lenders or if they are looking to commit fraud and are testing the decision systems of lenders.

11. As with any data used in credit scoring systems, credit searches alone are not necessarily predictive. When lenders build decision systems, items of data that are predictive in their own right or are indicative of characteristics that are outside the lending policy of that lender will be used on their own in *policy rules*. Thus, amongst other things, a lender will have a policy rule around persons who are under 18 years of age, who are currently bankrupt and, possibly, who have one or more county court judgements. For characteristics that are incrementally predictive, the best way to use them is within a score.
12. As a result, credit searches alone are unlikely to have a significant impact. However, if an applicant is already borrowing a significant amount and displays other characteristics analytically proven to be high risk then they will almost certainly lose points for each and the number of searches may tip them into being refused for credit.

### **The rules pertaining to the recording and use of credit and quotation searches**

13. Lenders do not want to turn down consumers who can and will be able to support the credit they seek. At the same time, lenders also want to lend responsibly and do not want to lend to those who will not repay them or who will struggle to repay them. Access to information on current commitments and the payment profile on current and recent agreements is hugely predictive of consumer credit behaviour. The increases in data sharing have enabled lenders to provide credit to a wider range of consumers and to identify and assist consumers showing signs of difficulty at an earlier stage.
14. In order to ensure that the system works as effectively as possible it is important that data is accurate whether that be credit account information or that searches are correctly recorded and reflect that a consumer is actually applying for credit and not merely making enquiries about the possible cost of a particular product.
15. For well over 15 years the lending community has been required to ensure that no more than 1 credit search is recorded for any application. Credit reference agencies have a system of unshared enquiry type searches for use in the event that a further check is required. This might occur if the proposition changes, for example in the case of a mortgage if the property valuation changes.
16. Hitherto, consumers were encouraged and advised to shop around for the best price deal which involved them asking and checking the rates and APRs of possible lenders. It was not necessary for a credit search to take place. However, with the advent of lenders offering products priced on a rate for risk basis it soon became apparent that a new system would be required.

17. Following discussions with the Information Commission in 2000 the industry agreed to develop and implement a quotation search type for use in cases where the lender offered a product that was priced according to the risk and for which credit bureau data would be required to give a quotation.
18. The FSA included use of quotation searches in their mortgage rules and the (then) DTI recommended that all unsecured lenders that offer rate for risk products follow suit.
2. Rules were agreed between the lending industry, the FSA, the ICO and the credit reference agencies and they were updated to provide further clarification in 2007. They are available at [http://www.experian.co.uk/www/pages/responsibilities/compliance/searches\\_in\\_lending\\_process.html](http://www.experian.co.uk/www/pages/responsibilities/compliance/searches_in_lending_process.html).
19. In essence they make the clear distinction between the consumer questions of “How much will it cost?” and “Can I have it?”. The former being a quotation, which might or might not require a credit reference search and the latter being an application where a clear commitment to lend is sought.
20. It is important to note that shopping around for credit is not about whether a lender will provide the credit but is about how much the credit would cost and whether it is the right product for that consumer.

### **Physical or web based brokers or introducers and price comparison websites**

21. As outlined above, organisations that are not lenders are not permitted to access the shared credit database, this includes brokers, introducers and price comparison websites. Brokers are however permitted to access public data to get an idea of the risk profile of a potential applicant who might be discussing options with them.
22. Consumers can, of course, obtain their own credit file to help inform discussions with brokers and/or provide an aide memoire in discussions with brokers or potential lenders.
23. Many brokers have a relationship with one or more lenders and are able to offer consumers the opportunity to obtain a quotation and process an application through a lender. This will be managed on behalf of the lender with the broker acting as agent for the lender.
24. In such cases, the broker must ensure the consumer is informed if a credit search will be carried out and obtain the consumer’s consent. The broker is not allowed to access and/or

use the data for any purposes associated with the business of that broker such as for marketing or product placement.

### **Consumer rights and protections**

25. The Information Commission was closely involved in the original discussions around the creation of quotation searches and the subsequent rules that were agreed. The requirement to process data fairly drove the need to make sure that consumers were not being treated as if they were applying for credit when, in fact, they were only asking how much a product might cost.
26. There are of course a number of instances whereby erroneous assumptions as to the reason for an application being refused are made by advisors. This may well lead to a perception that searches have a greater impact than is, in fact, the case.
3. If a consumer is turned down for credit, most lender codes of conduct and the industry Guide to Credit Scoring [http://www.experian.co.uk/www/pages/responsibilities/compliance/credit\\_scoring.html](http://www.experian.co.uk/www/pages/responsibilities/compliance/credit_scoring.html) requires that lenders give reasons why a consumer has been turned down and whether information from a credit bureau contributed to that decision. Consumers will then be encouraged to seek their credit file from the credit bureau in question and check whether the information shown on that file is correct.
27. Experian provides consumer files to over 1m consumers each year only a minority of which are sought because the consumer has been turned down for credit. Of the >1m files supplied, a number of consumers do query or dispute the content of the credit file and Experian will then investigate with the lender whether there needs to be a change to the data.
28. Under the Data Protection Act consumers have the right to dispute the data held on their file. Whilst it is investigated, the file will be marked as “disputed” and lenders must take that into account if they check that consumer’s credit file. Lenders have 28 days to confirm or remove data that is the subject of a dispute.
29. In fact most of the queries are not found to be errors or inaccuracies and of those that do result in changes only a very small proportion relate to the number of searches on a file. In the event that a search has been recorded in error it will be removed. Our statistics show that searches are removed on less than 1% of the files we supply and of those, most if not all will not relate to of application searches being recorded when a quotation search should have been used.

30. Consumers also have the right to add a statement to their file called a “Notice of Correction” and also to appeal the decision and ask a lender to manually reassess their application. This is so that, in the event that data was incorrect, a consumer is not disadvantaged.

### **The effect of multiple credit searches on credit scores**

31. Experian does develop and provide credit scores but most lenders will use their own, although they use Experian scores as part of their decision process. Experian credit scores are redeveloped and/or recalibrated on a regular basis. All lenders should be checking to ensure that the constituent parts of their system are still performing as expected. At present, we at Experian generally expect more than 5 credit application within a 3 month period to have a negative effect. It is important to note that the negative effect is small and on its own would not be significant. Thus an otherwise “good” applicant would not be impacted at all if they had 5 or more credit searches in a short time.
32. Very large numbers of applications within a 1 week period would be indicative of possible fraud and would attract further scrutiny from most lenders. Indeed, since fraud is on the increase one of the important reasons why Experian’s CreditExpert product is so popular is that members are alerted when a credit search is conducted on them. This service is in place as a fraud prevent measure as account takeover fraud usually manifests itself when credit applications are carried out in the victim’s name. Experian offers this free to fraud victims for one year.

### **The extent to which lenders offer quotation searches**

33. Experian has worked closely with clients to advise and try to ensure that those clients that offer rate for risk products are aware of the rules and do use searches that will not impact on a consumer’s credit score. In those industries where it is very common for consumers to shop around – such as insurance where credit will also be taken for the premium – and mortgages, large numbers of quotation searches are being recorded. However, not all lenders do offer rate for risk products and do not therefore need to offer quotation searches.

### **Conclusion**

34. Quotation searches are being widely used by those lenders that offer rate for risk products but not all lenders do offer such price structures and will not therefore need or use

quotation searches. The number of complaints from consumers about searches is very small and we have not seen evidence that there is an issue.

35. Experian takes its Compliance responsibilities very seriously and was instrumental in developing the original agreement with the ICO and the guidance that is available to all clients on the Experian website.
36. Experian also provides a great deal of education and information to consumers and frequently explains the importance of not applying for credit if an indicative price is all that is required.
37. Consumers can easily access their credit file through a variety of channels and are provided with information about searches on that file see the highlighted section at Appendix 1 where only the search P1 would be used in credit scoring.

**Appendix 1**

**SAMPLE REPORT – The information in this report is fictitious  
and is to be used for training and educational purposes only.**

**SAMPLE REPORT – The information in this report is fictitious**



**and is to be used for training and educational purposes only.**

**Our reference: 00000000/A1**

Consumer Help Service

**(Please quote on all correspondence)**

PO Box 9000  
Nottingham NG80 7WP

Date of report: 15 January 2009

**RR00000  
MRS JESSICA SOMEBODY  
186, HIGH STREET  
ANYTOWN  
MIDSHIRE  
  
A12 4CD**

DEAR MRS SOMEBODY

**Your Credit Report**

Thank you for your recent application for a credit report. This includes all the information that we hold about you at the addresses shown on page 2 of your report.

If you need to get in touch about the information on your report, please remember to quote the reference number at the top of this page. Please also provide the number of each item you are querying (these are printed directly above the item they relate to, e.g., E1, C4, P2). Information may be printed on both sides of the paper.

We have included a leaflet explaining the different types of information that may be included in your report and the steps you should take if you have any questions. Please use this leaflet to answer your queries. Most of the information we hold about you has been sent to us by companies with which you have a financial relationship or have had in the past.

Your credit report has been updated to include any other names you have been known by and with links to previous addresses. If any of this information is wrong and you believe it should be changed please contact us. The enclosed leaflet explains how to do this. Our records will also show that you made a request for your credit report. This information will not be seen by companies searching your credit report but will be shown on any reports you ask for in the future.

**If you have any questions about the information companies have given to us, you may wish to get in touch with them because we need their authorisation to make changes to your report. A list of useful addresses is included at the back of your report.**

### Consumer Help Service

*PS The quickest way to get help with your report is to log onto our website [www.experian.co.uk](http://www.experian.co.uk). Click on Consumer Advice and visit Your Credit Report Help Centre.*

### Application details

*These are the details you gave us when you asked for your report. We have used this information to produce your report.*

<b>Name:</b>	MRS JESSICA SOMEBODY
<b>Your date of birth:</b>	09/10/1972
<b>Other names you have been known by:</b>	MISS JESSICA ANYBODY
<b>People you are financially connected to</b>	MR SIMON R SOMEBODY
<b>Date of birth:</b>	02/05/1974

#### Address details:

**Present:** 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD

**Other:** 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

#### Electoral roll information

This shows the dates that your name was registered on the electoral roll and the addresses you were recorded at. There is more information about the electoral roll in the explanatory leaflet.

**Sample report only**

**Present Address**

**E1** Local authority ANYTOWN LA  
**186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

SOMEBODY JESSICA

From 10/2004 to present

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**Other address/es**

**E2** Local authority ANYTOWN LA  
**1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

ANYBODY JESSICA

From 1982 to 10/2004

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Aliases

Aliases are created when lenders tell us of other names you have been known by or when you tell us of other names you have used. Your credit report will include information recorded in these other names at the addresses you gave us when you applied for your report.

**S1** **MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Date of Birth 09/10/1972

Also known as MISS JESSICA ANYBODY

Confirmed by BOODLES BANK PLC on 18/05/07

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Aliases continued

**S1** **MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Date of Birth 09/10/1972

Also known as MISS JESSICA ANYBODY

Confirmed by **EXPERIAN CREDIT REPORT (2)** on 09/03/07

This information was provided to us as part of report application or from information given after receiving a credit report

## Financial associations

Financial associations show details of anyone you are financially connected to. Financial connections are created by joint accounts, joint applications, joint court judgments or from information you have given to us. When you apply for credit a lender may take into account financial information about people you are financially connected to.

**L1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE. A12 4CD**  
Date of Birth 09/10/1972  
Associated with MR SIMON SOMEBODY Date of Birth  
02/05/74  
Type of association JOINT ACCOUNT  
Association confirmed by **BOODLES BANK PLC** on 20/05/07

**L2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**  
Date of Birth 09/10/1972  
Associated with MR SIMON SOMEBODY  
Type of association FINANCIAL CONNECTION  
Association confirmed by **EXPERIAN CREDIT REPORT (2)** on  
09/03/07

This information was provided to us as part of a report application or from information given after receiving a credit report.

**L1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE. A12 4CD**  
Date of Birth 09/10/1972  
Associated with MR SIMON SOMEBODY Date of Birth  
02/05/74  
Type of association JOINT APPLICATION  
Association confirmed by **GENERAL BANK PLC** on 11/12/05

## Public record information

This section of your report includes any court judgments, bankruptcies or individual voluntary arrangements. For further information please see the explanatory leaflet.

**J1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Information type BANKRUPTCY ORDER Date 03/12/06 Discharged  
03/12/07  
Court name ANYTOWN COUNTY COURT Case number 2005000136  
Source: INSOLVENCY SERVICE

When your bankruptcy has been annulled or discharged we will be informed by the Insolvency Service. For further information please see the explanatory leaflet.

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**Public record information continued**

**J2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Information type VOLUNTARY ARRANGEMENT Date 17/06/04  
End date 24/10/06  
Court name UNKNOWN Case number IVA0045658  
Source INSOLVENCY SERVICE

If you have any questions about voluntary arrangements you should speak to the Supervisor.

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**J3 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Information type VOLUNTARY ARRANGEMENT COMPLETE Date  
17/06/04  
End date 24/10/06  
Court name UNKNOWN Case number IVA0045658  
Source INSOLVENCY SERVICE

This information shows that the conditions of the Arrangement have been met. Details of the Voluntary Arrangement will continue to be held on your report for six years from the date of the Arrangement.

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**J4 MISS JESSICA ANYBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Information type SATISFIED JUDGMENT Date 01/08/04  
Amount £481 Satisfied 16/11/05  
Court name SOUTHTOWN COUNTY COURT Case number ST701043  
Source REGISTRY TRUST LTD

Satisfied judgments are automatically removed from your report after six years.

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**J5 MISS JESSICA ANYBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Information type JUDGMENT Date 01/07/04

Amount £1257  
Court name SOUTHTOWN COUNTY COURT Case number ST401135  
Source REGISTRY TRUST LTD

If you have paid a judgment you should contact the court involved and make sure they are informed. You may wish to request a Certificate of Satisfaction as proof of the change. We will be told that the judgment is satisfied and we will update our records. For further information please see the explanatory leaflet.

Credit account information

Credit account information shows details of your credit agreements with lenders. If you have any queries about this credit account information and would like to contact the lender yourself, there is a list of useful addresses at the end of your report. Please see the leaflet for an explanation of what all the details mean including an explanation of the status history.

**C1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Date of birth 09/10/72

**LENDU MONEY LIMITED** CURRENT ACCOUNT

Started 19/10/06 Balance £344 Credit Limit £360

Status history 000000D

In the last 7 months of account activity, the number of status 1-2 is 0 and the number of status 3+ is 0

File updated for the period to 01/05/07

Credit account information continued

**C2 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Date of birth 09/10/72

**BOODLES BANK PLC** CREDIT CARD

Started 19/10/02 Balance £1126 Credit Limit £1300

Status history 32100U00000

In the last 36 months of account activity, the number status 1-2 is 2 and the number of status 3+ is 1

File updated for the period to 01/03/07

**C3 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE A12 4CD**

JOINT ACCOUNT

Date of birth 09/10/72

**GENERAL BANK PLC** LOAN

Started 04/06/01 Balance £0 Settled 04/06/06

Status history 000000000000

In the last 36 months of account activity, the number of status 1-2 is 0 and the number of status 3+ is 0  
File updated for the period to 28/06/06

*Settled accounts are kept on file for six years from the settlement date. The status history in respect of a settled account relates to the period of time prior to the date of settlement.*

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**C4 MISS JESSICA ANYBODY, 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Date of birth 09/10/72

Arrangement from 01/05 to 08/05

**MOBILE PHONE FIRM RENTAL**

Started 05/07/01 Default £548 Defaulted 06/10/05 Balance Satisfied

Status history 8

File updated for the period to 19/07/06

*NOTICE OF CORRECTION, Reference 00000000 – See final page of report*

*A defaulted account is removed from your report after six years whether or not you have paid the debt in full. If you have paid some of the debt off, the balance should show how much you still owe.*

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**C5 MISS JESSICA ANYBODY, 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Date of Birth 09/10/72

**MOBILE PHONE COMPANY RENTAL**

Started 27/08/98 Default £1021 Defaulted 08/09/04 Current Balance £695

Status history 8

File updated for the period to 07/09/05

*A defaulted account is removed from your report after six years whether or not you have paid the debt in full. If you have paid some of the debt off, the balance should show how much you still owe.*

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Credit account information with account management details

For credit card and store card accounts, some lenders may provide extra information about how you manage your account. This includes details such as the balance shown on your statement

each month, the amount you repaid each month, and the number and value of cash advances made each month. If we hold this additional information, the account details will be shown in a separate section of your report called "Credit account information with account management details". An example of one of these entries is shown below;

**Miss Jessica Anybody 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Date of birth 09/10/72

**ABC BANK PLC** Credit/Store Card

Started 06/03/06

In the last 36 months of account activity, the number of status 1-2 is 5 and the number of status 3+ is 0

File updated for the period to 24/03/07

Status Code	Balance	Payment Amount	Previous Statement Balance	Number of Cash Advances	Amount of Cash Advances	Payment Code	Promotional Rate Indicator
0	£5286	£219	£1451	0	0	M	
0	£1451	£20	£1363	0	0		Y
0	£1364	£21	£1335	0	0	M	Y
0	£1335	£128	£1447	0	0		Y
0	£1447	£0	£1388	0	0		Y
0	£1388	£0	£1139	0	0	M	Y
0	£1139	£0	£912	0	0		Y
0	£912	£0	£921	0	0	M	
0	£921	£0	£903	0	0		
0	£903	£0	£911	0	0	M	
0	£911	£0	£880	0	0		
0	£880	£0	£0	0	0		

**Credit Limit**

Current	01/06	02/02	10/01	08/00
£6000	£5000	£4800	£4000	£2000

The first part of the record contains similar information to that shown for all other credit accounts. This information is explained in more detail in the 'Credit account information' section of this leaflet.

The central section, shown as a table, records the way in which the account has been used and repaid each month. Each row shows the information the lender sent to us for a particular month, with the most recent information shown on the top row and the oldest information on the bottom row. Up to twelve months' worth of information may be shown. The payment code and promotional rate indicator will only contain a value under certain circumstances (see table below). If other rows or individual fields are blank this indicates that the lender has not provided this information for that month.

Status code	The status codes are the same for all credit accounts. You should read the status code history from top (most recent) to bottom (oldest).
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Balance	This is the total outstanding balance shown on your statement
Payment amount	This is the total amount you repaid in response to your last statement.
Previous statement balance	This is the total outstanding balance shown on your previous statement.
Cash Advances (Number)	This is the total number of cash advances that you took out using your card since the lender last updated the information.
Cash Advances (Amount)	This is the total value of the cash that you took out using your card since the lender last updated the information.
Payment code	An "M" shows whether the amount you paid in response to your last statement was equal to the minimum payment shown on that statement. If you repaid more or less than the minimum payment, this field will be blank.
Promotional rate indicator	A "Y" shows that a promotional offer was applicable to some or part of the balance on your account when the lender last updated the information, such as a period of interest-free credit.

The final part of the record shows past changes in the credit limit for this account. Up to a maximum of four changes may be displayed, with the current limit on the left and the oldest change on the right. Each credit limit change shows the date of the change and the previous credit limit.

#### Council of Mortgage Lenders (CML) information

Members of the Council of Mortgage Lenders record information on customers who have given up their homes or had them repossessed. If you have any queries about the CML information shown below and would like to contact the company concerned yourself there is a list of useful address at the end of your report. CML information may be recorded at up to three addresses - the address which was repossessed or surrendered and your previous and forwarding address(es).

**C6 MRS JESSICA SOMEBODY 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**  
**MORTGAGE YOUR HOUSE PLC FORWARDING ADDRESS**  
**POSSESSION ORDER 16/11/04**  
File updated for the period to 24/12/02

Previous searches

Previous searches show the names of organisations that have seen some or all of the information recorded on your credit report within the past 12 months. Searches of your credit report should all have been made with your consent. Most will relate to credit applications you have made but some may be routine checks by your lenders on accounts you already have. Unrecorded enquiries, quotations, identity verification checks and credit report applications are shown for you on your copy of your report but are not seen by lenders.

**P1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD**

Date of birth 09/10/72 Time at address 04 years 01 months  
Searched on 27/11/08  
Searched by **LENDU MONEY LIMITED**  
Application type REVOLVING CREDIT

**P2 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD**

**OPT OUT**

Date of birth 09/10/72 Time at address 04 years 01 months  
Searched on 15/11/08  
Searched by **HOPE BING AND LAMOUR LIMITED**  
Application type UNRECORDED ENQUIRY

**P3 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD**

Date of birth 09/10/72 Time at address 04 years 02 months  
Searched on 01/12/08  
Previous searched on 19/11/08, 07/07/08, 27/06/08  
Searched by **EXPERIAN REPORT (1)**  
Application type CREDIT REPORT

This information was provided to us by you when you applied for your credit report via our website

Sample report only

Financial associate searches

Financial associate searches show when your credit report information has been seen because someone you are financially connected to has made an application for credit. This information is recorded for you on your copy of your credit report only. It will not be seen by lenders.

**U1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD**

Date of birth: 09/10/72  
Name of applicant: MR SIMON SOMEBODY  
Date of birth: 02/05/74  
Date of application: 15/12/08

**Searched by:** PEARLY KING AND QUEEN STORES

**U2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD**

Date of Birth 09/10/72  
Name of applicant: MR SIMON SOMEBODY  
Date of Birth 02/05/74  
Date of application: 05/12/08  
**Searched by: HONEST BANKING COMPANY LTD**

Linked addresses

Linked addresses are created by lenders when you move or when you tell us your previous addresses. This information shows addresses that you have been connected with. For further information please see the explanatory leaflet.

**B1 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Linked to: **186 HIGH STREET, ANYTOWN, MIDSHIRE**  
Source: **HOPE BING AND LAMOUR LIMITED**  
Date of information 15/10/04

**B2 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**

Linked to: **2 ELSEWHERE DRIVE, SOUTHTOWN, MERSEYSIDE**

Source **LENDU MONEY LIMITED**  
Date of information: 05/01/04

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**B3 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ**  
Linked to: **186 HIGH STREET, ANYTOWN, MIDSHIRE**  
Source **EXPERIAN CREDIT REPORT (2)**  
Date of information: 15/04/06

This information was provided to us by you when you applied for your credit report in writing or by telephone

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CIFAS - The UK's Fraud Prevention Service

CIFAS information is displayed by address and so the information may not be in your name. CIFAS aims to detect and prevent fraud and so protect innocent people whose names, addresses or other details are used fraudulently by others in order to get credit. Organisations who are members of CIFAS examine credit applications very carefully and may contact you to make sure you have applied for the credit. They will not automatically refuse applications from people with warnings on their report. If the CIFAS entry is recorded in your own name and you require further information you should contact the company directly at the address provided on the entry.

**F1** Name used **MRS JESSICA SOMEBODY**  
Date of birth used 09/10/72  
Address Used **186, HIGH STREET, ANYTOWN, MIDSHIRE A12 4CD**  
Date recorded 08/01/09  
Member name **JINGLES MOBILE PHONE COMPANY**  
Members address Jingle House, Mobile Road, Tonetown, Southshire Z98 1VY  
Case Reference 14AY2400  
Product Type COMMUNICATIONS  
Type of case VICTIM OF IMPERSONATION - use, by another person, of this name and/or address.

Gone Away Information Network (GAIN)

GAIN shows that an individual owes money and has moved without giving the lender a forwarding address. It is explained more fully in the leaflet. If you have any queries about this information please contact the company which gave us the information.

**T1 MRS JESSICA SOMEBODY**  
Date of birth 09/10/72  
Last known at 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ  
Located at 186, HIGH STREET, ANYTOWN, MIDSHIRE  
By: MOBILE PHONE FIRM  
Reference 62623456 On 09/03/05

Notice of Correction

Reference: 00000000

Page 1

00000000/SOMEBODY. "I, MRS JESSICA SOMEBODY, WISH TO MAKE IT CLEAR TO ANY POTENTIAL LENDER THAT THE HISTORY OF ARREARS ON THIS ACCOUNT WAS SOLELY THE RESULT OF REDUNDANCY AND NOT A RESULT OF ANY UNWILLINGNESS TO PAY. I WOULD LIKE TO STRESS THAT I AM NOW IN FULL TIME EMPLOYMENT AND ALL MY MONTHLY PAYMENTS ARE MADE ON TIME. SIGNED MRS J SOMEBODY." ADDED 11/01/06 JPJ

Useful addresses

The following addresses will help you to contact lenders or other organisations if you want to ask them about information on your report.

**SOUTHTOWN COUNTY COURT:** QUEENS' HOUSE, ROYAL STREET SOUTHTOWN, U48 7RF

**ANYTOWN COUNTY COURT:** 100, VICARY STREET, ANYTOWN, EW67 9RW

**LENDU MONEY:** MRS VERITY HELPFUL, CUSTOMER SERVICES (DATA PROTECTION), LENDU MONEY, CASH HOUSE, 200 NEARBY ROAD, CLOSETOWN, MIDDLESHIRE, K114 8XZ

**HOPE BING AND LAMOUR LIMITED:** CUSTOMER SERVICES, HOPE BING AND LAMOUR LIMITED, FRIENDS PLACE, HARDLY ANYWHERE, KV12 9YY

**JINGLES MOBILE PHONE COMPANY SERVICES:** MRS SHIRLEY ANSWER, CREDIT UNDERWRITING DEPT, JINGLES MOBILE PHONE COMPANY SERVICES, MOBILE HOUSE, PARK STREET, NOWHERE LK76 5YH

**GENERAL BANK:** MR ANDRES QUERY, COLLECTION & LITIGATION DEPT, GENERAL BANK, GENERAL HOUSE, LOCAL ROAD, TOWNSPACE, TG98 4TR

**ABC BANK PLC: CONSUMER SERVICES, ABC BANK PLC, 26 BANK CLOSE, BANK BUSINESS PARK, GENERALBOROUGH, GF12 5AT**

**-----END OF REPORT-----**

## Written evidence submitted by the Information Commissioner's Office (ICO)

### EXECUTIVE SUMMARY

1. The Information Commissioner's Office (ICO) is the UK's independent public body set up to uphold information rights in the public interest, promoting openness by public bodies and data privacy for individuals.

2. The Treasury Select Committee is undertaking a short inquiry into the impact on the credit ratings of consumers shopping around to obtain credit, through personal loans or credit cards, on the most advantageous terms. Evidence is sought on:

- The effect of multiple credit searches on individuals' credit ratings including the size of the change in credit scores; and
- The extent to which lenders offer best practice quotation searches.

3. The ICO has not received a significant number of complaints about the effect credit searches have on individuals' credit ratings, and we are unable to comment on the extent to which lenders offer quotation searches as an alternative to credit searches. Nevertheless, this is a practice that we would support and encourage, as shopping around for the best credit deal should not result in an impaired credit score. Lenders must ensure that they only conduct a credit search when a consumer has actually applied for credit.

4. Subject to this, we consider that the process of making and recording a credit search is basically fair in data protection terms – not least because it provides lenders with information relevant to making informed and responsible lending decisions.

5. On the understanding that multiple credit applications are predictive of increased credit-risk, we also consider that the potential negative effect which multiple credit search footprints have on individuals' credit scores is justifiable – at least in principle. However, we raise concerns around ensuring that these negative effects are proportionate to the increased risk, and about the transparency of the process.

### ROLE AND EXPERIENCE OF THE ICO

6. Individuals who consider that their rights under the Data Protection Act 1998 (DPA) have been infringed are able to ask the ICO to make an assessment as to whether or not this is likely. The Commissioner has investigatory powers in this regard and may take enforcement action where he considers that to be warranted. Enforcement action usually falls short of criminal prosecution, although the Commissioner does have power to prosecute for specific offences created by the DPA – such as that of unlawfully obtaining personal data. In addition, a new power

is likely to come into force soon enabling the Commissioner to impose financial penalties for serious breaches of the DPA that are likely to cause substantial damage or distress.

7. Complaints about credit-related matters form a significant proportion of the ICO's caseload, and it is common for us to deal with complaints concerning the accuracy of information recorded on a consumer's credit file, for example. Nevertheless, our experience is that we do not receive many complaints about the effect credit searches have on individuals' credit ratings. This could well be because people are generally unaware of the impact that a credit search has on their credit score, or because they do not appreciate the distinction between credit searches and quotation searches, but this is merely speculation. We have seen some complaints where multiple credit searches have been undertaken in relation to a single application for credit and, as we explain below, such situations clearly raise questions about fairness.

8. Given the dearth of actual complaints to the ICO on these matters, we are unable to comment on the extent to which lenders offer quotation searches as an alternative to credit searches, or on the extent of the negative effect which multiple credit searches actually have on individual credit scores.

9. Although the provision of a complaints resolution service for individuals is a key element of the ICO's functions, we also devote significant resources to encouraging compliance and promoting good practice at an organisational level – with the aim of making it easier for those organisations who seek to handle personal information well, and tougher for those who do not. We do this by means of a range of activities, from the publication of general guidance to direct engagement with organisations and industry bodies in respect of particular data protection policy concerns.

10. Much of this engagement work concerns consumer financial services. We work with the credit reference agencies and with financial institutions, and with other regulators such as the OFT, to improve the ways in which financial services organisations handle consumers' personal information.

#### CREDIT REFERENCING AND THE DATA PROTECTION ACT 1998

11. Organisations that handle (or “process”) individuals' personal information must comply with the DPA. They must register as data controllers with the ICO. This involves notifying us of certain particulars about their data handling activities, and the payment of an annual fee. However, the ICO has no power to refuse or revoke a registration – so this process is not akin to the OFT's role in issuing consumer credit licences. Data controllers must also comply with the principles of good information handling that are enshrined in the Act.

12. It is clear that the whole process by which lenders and others share information about consumers via the credit reference agencies – including making credit searches – involves

processing personal information, and that lenders (and the credit reference agencies) must therefore engage in that process only in ways that comply with the DPA and with the data protection principles in particular.

13. A key principle is that personal information must be processed fairly and lawfully. In practice, this means that organisations must:

- have legitimate grounds for collecting and using personal information;
- not use it in ways that have unjustified adverse effects on the individuals concerned;
- be transparent about how they intend to use the information, and give individuals appropriate privacy notices when collecting their personal information;
- handle people's personal information only in ways they would reasonably expect; and
- not do anything unlawful with it.
- 

14. Further principles that are worthy of note here are that:

- personal information must be adequate, relevant and not excessive for the organisation's purpose; and
- it must not be kept for longer than necessary.

15. So, we need to be satisfied that the process of making and recording a credit search is basically "fair" (there is no doubt that it is generally lawful), both in terms of its purpose and effect, and also in terms of what consumers are told about the process. The relevance of credit search records in decision-making, and the length of time for which records of historic credit searches appear on credit files also goes to the question of fairness.

#### CREDIT SEARCHES – PURPOSE AND EFFECT

16. The purpose of a credit search is, of course, to provide a lender with information that will enable it to make an informed and responsible decision as to whether or not to grant credit to a consumer and, if granted, as to its terms. It is entirely fair and reasonable that lenders should do this – provided that they have been transparent in telling the consumer in advance what will happen.

17. As we understand it, making a credit search has a dual effect: first, it leaves a visible "footprint" on the consumer's credit file; and, second, it potentially has an adverse effect on their credit score.

## A) SEARCH FOOTPRINTS

18. When a credit search is conducted, it leaves a “footprint” on the consumer’s credit file. As we understand it, the purpose of such a footprint is twofold: first, it enables the consumer to know that a search has been conducted (and by whom); and, second, footprints enable other lenders to see how often the consumer has applied for credit.

19. Credit searches should be distinguished from “quotation searches”, the latter being made only for the purpose of providing a quotation, rather than to determine an actual credit application. We understand that both types of search leave a footprint that is visible to the consumer and lender alike, but that they are distinguishable on the face of the credit file.

20. We consider it essential that these search footprints should be visible to the individual consumer. The real question is whether they should also be visible to other lenders who may subsequently search the consumer’s credit file. This, in our submission, should depend on whether they provide the searcher with information that they have a legitimate interest in seeing for the purposes of their search.

21. The credit industry’s position is that prospective creditors do have a legitimate interest in knowing whether (and how often) an applicant for credit has applied for credit in the past. The industry says that making several such applications over a short time period is predictive of the applicant’s financial over-commitment and even of possible fraud. Assuming that this is true, we agree that the information is relevant to the decision whether to grant or refuse credit, and that it should therefore be available to lenders for that purpose. We should note, however, that while the logic of the industry’s position seems perfectly reasonable, the ICO is unable to verify the extent to which multiple credit applications are predictive of sub-optimal credit risk. No doubt this is an issue that the Committee will wish to explore with other witnesses as part of its inquiry.

22. We are not aware of any claims that merely “shopping around” for the best credit deal is predictive of increased credit risk – and we would be sceptical of any such claim were it to be made. On this basis we see no reason why lenders making credit searches should be able to see the footprints left by earlier quotation searches, as that information would be both irrelevant to the decision-making process and excessive. Our understanding is that quotation searches do leave a footprint that other lenders can see, and that they may be taken into account in credit scoring, but the Committee may wish to confirm this with the credit reference agencies.

## B) CREDIT SCORES

23. Financial institutions use information gleaned from a consumer’s credit report, together with information obtained from the individual direct, to produce a credit score, which is then used to assess the risk of granting credit as part of the credit decision-making process. Different institutions use a variety of models to generate credit scores and the ICO is unable to comment

on the detail of the credit scoring process. Nevertheless, we understand that most (if not all) credit scoring models take account of historic credit searches that appear on a credit file, and that multiple credit searches tend to have a downwards effect on credit scores: in other words, they depress an individual's creditworthiness.

24. This downwards effect on credit scores is based on the predictive quality of multiple credit searches mentioned above and, for the same reasons, we think it is unobjectionable in principle. However, there are a number of significant qualifications to our support for the inclusion of credit scores in automated credit scoring. These may be summarised as follows:

- The negative effect that multiple credit searches have on a credit score must be proportionate to the increased risk they predict. We have no means of knowing whether this is actually the case in practice.
- On a similar theme, it would be helpful to have greater clarity as to how many credit searches it takes to cause this negative effect. Anecdotal evidence suggests that, these days, lenders are less wary of multiple credit searches than perhaps they once were. This is again something that the Committee may wish to explore further with industry representatives.
- The predictive quality of records of credit searches diminishes over time. Consequently, credit search footprints should be removed once they are no longer of practical use. We understand that the industry standard for retention of credit search records is 12 months.
- Lenders should not leave more than one credit search footprint in respect of a single application for credit – because this could have a disproportionately detrimental effect on the applicant's creditworthiness, and would therefore be unfair.
- Shopping around for the best deal should not result in an impaired credit score. Multiple quotation searches should not impair an individual's credit standing, and lenders must ensure that they only conduct a credit search when a consumer has actually applied to them for credit.

#### TRANSPARENCY OF PROCESS

25. This is a complex and technical area which consumers are likely to find confusing, not least because of the array of different types of searches of their credit files which may be made by organisations, and the different ways they impact on a consumer's credit standing.

26. We have already commented that search footprints bring a desirable level of transparency for consumers. However, there is a further dimension to the transparency issue – consumers need to be given information about the likely effect of a search on their credit standing (and about any choices they have) before the search is carried out.

27. A consumer should be told in clear and understandable terms that a search of their credit file will be made, and what sort of search it will be.

28. In addition, lenders should only conduct a credit search where the circumstances warrant it. So, lenders' front-end processes should be designed to elicit whether a consumer is seeking a cost quotation or actually applying for credit. Only in the latter case should a credit search be made.

29. It is worth noting that at least one of the credit reference agencies publishes quite extensive guidance for consumers on its website, including guidance on the effect of multiple credit applications on an individual's credit standing. This is very much to be welcomed. However, the Committee may wish to inquire about the extent to which lenders take steps to bring this sort of guidance to consumers' attention, and whether additional guidance on related issues would be desirable.

*14 October 2009*

## Written evidence submitted by Equifax

### 1. Executive Summary

- 1.1 Equifax, a global leader in information solutions and one of the largest credit assessment, ID verification and fraud prevention solution providers, is grateful for the opportunity to respond to the Treasury Select Committee's inquiry into credit searches.
- 1.2 This document details Equifax's response to the Committee's two points of focus:
  - 1: The effect of multiple credit searches on individual's credit ratings including the size of the change in credit scores.
  - 2: The extent to which lenders offer best practice quotation searches.
- 1.3 To inform our response, Equifax has analysed a range of data relating to full credit searches and quotation searches.
- 1.4 We would like to highlight at the outset that credit reference agencies (CRAs) are not informed of the outcome of a credit decision made by a lender following a credit search. Therefore, while Equifax is able to identify the predictive power of credit search data, we cannot provide information on the actual numbers of applicants who are declined credit due in part or otherwise to the number of previous credit searches appearing in their credit file.
- 1.5 Credit searches form an important part of a lender's decision making process. The credit score used by a prospective lender is based on a number of characteristics. Examples of these include a consumer's payment history, their age, accommodation type, and employment status to name a few. The number of prior credit searches is one further characteristic which is taken into account. It is therefore the combined impact of these characteristics which formulate the overall predictive power of a scorecard and ultimately drive the credit decision.
- 1.6 The precise effect that making multiple searches has on a credit score will vary depending on the extent and status of a consumer's current credit file. For example, an applicant with very little credit information will be more heavily penalised by multiple credit searches than an applicant with a fuller credit file. Further to this, an applicant with a good credit file (i.e. those with open credit accounts at the time of applications and with a generally positive repayment history) will be penalised the least.

- 1.7 It is important to note that references to ‘penalising’ credit ratings throughout this submission relate to reductions to a consumer’s credit score when calculated using credit file data held by Equifax and using Equifax scorecards.
- 1.8 We have also analysed the impact that removing credit searches from the decision making process would have on the predictive power of credit risk scoring systems. Clearly, any significant loss in risk scoring power has the potential to weaken a creditor’s capacity to ensure they lend responsibly and minimise bad debt.
- 1.9 Across all sectors analysed by Equifax, removing credit searches weakens the power of credit risk scoring systems. For applicants with little credit history, the loss is greatest and would likely significantly weaken lenders credit decision making ability. We anticipate that this could lead to an increase in bad debt, or, more likely, increase rejection rates as creditors introduce stricter lending criteria.
- 1.10 With regard to the use of quotation searches, our analysis shows that they currently work well in the regulated mortgage market. However, our analysis has also shown that their use across the unsecured credit market – particularly the credit card sector – is negligible.
- 1.11 We would be delighted to meet with the Committee or the inquiry manager to discuss this document and our work in greater detail.

## **2. Equifax submission**

### **1: The effect of multiple credit searches on individual’s credit ratings including the size of the change in credit scores.**

- 2.1 Information provided by Equifax to the credit industry to support credit decision making includes credit risk scores tailored to particular credit sectors or generic across the UK lending population.
- 2.2 These scores can be used by lenders as the primary decision making indicator, but are more typically used as part of a broader range of information which includes a lender’s own scorecards and policy rules.
- 2.3 Equifax’s generic credit risk scorecards have very recently been redeveloped and this has allowed us to analyse a range of data to inform our response to the Committee about the potential effect of multiple searches on an individual’s credit rating.
- 2.4 However it should be noted that due to the methodology used to build scorecards which assumes that future performance will reflect past performance, the latest scoring models are based on application data samples from 2005 and 2006. This is to allow time to analyse the

performance of previously opened accounts in order to predict the performance of future accounts.

- 2.5 Therefore, while the following information provides extremely useful evidence to show the impact credit searches have and have always had in credit scoring decision making, it may not fully reflect what may or may not be happening in today's credit market following significant reductions in credit applications and any changes creditors may have made to their approval criteria. It will be many months before the outcome of today's credit decisions can be seen.
- 2.6 To best show the effect that multiple credit searches will have on an individual's credit rating we have grouped our analysis into three distinct groups of consumers, as described by their credit file status:
- "POOR FILE" - consumers who at the time of application had defaulted on previous credit or currently had serious arrears on one or more accounts
  - "THIN FILE" - consumers who at the time of application had either no open credit accounts or only one or two accounts opened in the last few months
  - "GOOD FILE" - consumers with open credit accounts at the time of applications and with a generally positive repayment history
- 2.7 We then analysed each consumer group against Mortgage, Credit Card and Loan product groups. Across all three product groups approximately 50%-55% of people do not have a recorded credit search within the last 12 months.
- 2.8 The "POOR FILE" consumer group is most likely to have a search within the last 12 months, followed by the "GOOD FILE" and "THIN FILE" consumer groups respectively (actual percentages vary between products).
- 2.9 In all instances the credit ratings of the "THIN FILE" consumer group are penalised the most heavily at all levels of search activity (It is important to bear in mind that this group are also least likely to have credit searches).
- 2.10 The "GOOD FILE" consumer group is penalised least for initial low levels of search activity (1-2 searches over 12 months). However, as multiple searches increase the "GOOD FILE" group is penalised more heavily than the "POOR FILE" group.
- 2.11 Whilst the "POOR FILE" group is more likely to have multiple credit searches, the incremental punishment they receive for additional searches is the least – giving this group

the most stable penalty across the range of credit searches i.e. the level of multiple searches is less indicative than the fact they have multiple searches.

- 2.12 Comparing the penalty associated with credit searches across product groups, all consumer groups are penalised most heavily for a Credit Card application, followed by a Loan application and Mortgage application respectively.
- 2.13 In addition to looking at the points associated with searches, we can attempt to quantify the significance including multiple search characteristics in our credit score models. To do this we scored our samples with and without the multiple search characteristics. Across all products multiple search characteristics are of most importance to the “THIN FILE” group – adding between 6-8% onto the measure for assessing the scorecard’s predictive power (the model’s ability to accurately evaluate the level of risk associated with an applicant). By comparison, when they are included in the “POOR FILE” group the search characteristics add approximately 2% to the models’ strength. For the “GOOD FILE” group searches add between 2% - 4%.
- 2.14 In conclusion, search characteristics are of more importance to the “THIN FILE” group, (influencing scores to a greater degree when present) and comparatively not impacting the “GOOD FILE” and “POOR FILE” groups to the same degree.
- 2.15 It is important to reiterate that this analysis has been carried out on samples dating to 2005-06. If due to the current economic climate there is a generic policy shift within the financial sector to rejecting a proportion of credit applications they would have previously accepted, then the picture is liable to alter.
- 2.16 Currently, we would expect to see a higher percentage of the population making multiple credit searches in an attempt to find better deals. This creates the potential for “GOOD FILE” consumers to be additionally penalised until decisioning models are realigned. As a result they will be portrayed as a higher risk applicant when in theory their classification is being driven by the market place and not their risk.

## **2: The extent to which lenders offer best practice quotation searches.**

- 2.17 We have examined the proportion of quotation searches as a percentage of the total number of credit searches. We have reviewed the trend over time, and assessed the results by the type of company performing a search (e.g. mortgage supplier, finance house, bank, building society, credit card provider etc).
- 2.18 Equifax does not record the type of product applied for in our search database, and therefore cannot link the search inquiry directly to the credit product. Therefore, if a search

was performed by a bank, the customer may have been applying for any one of the products that organisation offers.

- 2.19 Equifax began capturing quotation searches in 2004, but initial volumes were negligible. In January 2005 they reached 1% of total credit related searches. During 2006 the number of quotation searches started to increase dramatically reaching over 6% of total searches by the end of 2007. Since then, the number has declined to average pre-2007 levels of approximately 2% of total searches
- 2.20 Further analysis shows that the number of quotation searches appears to be heavily driven by companies which provide mortgages – perhaps explaining the significant reduction in the number of searches since 2008. The peak in quotation searches during 2007, as a result of regulations introduced at this time which required mortgage providers to use quotation searches to support ‘rate for risk’ products, and the following decline can be seen in each of the following company types: mortgage suppliers, building societies, finance houses and finance services.
- 2.21 If we highlight companies classed solely as ‘mortgage suppliers’ we can see that the number of quotation searches performed by these companies since the start of 2009 is about 80% of all searches performed by mortgage suppliers on the Equifax database. This is four times the rate of credit searches and likely reflects the current ‘shopping around for quotations’ prior to making a formal credit application.
- 2.22 We would conclude that where quotation searches are required by regulation (i.e. in the mortgage market) the process is working well and ensures credit search applications are typically only being performed when a formal application for a mortgage occurs.
- 2.23 In the case of the credit card market, we see low volumes of quotation searches performed prior to a formal application for a credit card product. We suspect this is primarily due to the fact many credit card products are not ‘priced for risk’ and therefore have no need for a quotation search when the applicant applies directly to that lender for a particular credit card product.
- 2.24 It is important to note that Equifax marks all credit files with a ‘footprint’ every time information is viewed by a creditor. There are varying levels of footprint markings to denote whether a full credit search or a quotation search has taken place on a consumer’s file. Creditors do not take quotation searches into account when making credit decisions.

### 3. About Equifax

- 3.1 Equifax in the UK was established in 1989 and has over 450 employees with sites in London and Bradford. We serve customers across a wide range of industries including financial services, retail, healthcare, telecommunications/utilities, brokerage, insurance and Government departments.
- 3.2 Originally established in the USA in 1899, we are headquartered in Atlanta, Georgia, and employ approximately 6,900 people in 14 countries through North America, Latin America and Europe. Equifax is a member of Standard & Poor's (S&P) 500® Index.
- 3.3 We are the world's largest repository for consumer credit information, and in the UK we hold approximately 400 million records on 45 million individuals. Our commercial databases contain information on 2.1 million limited companies as well as information on a significant number of non-limited companies.
- 3.4 We receive in the region of 192 million updates to this information each month from a range of public and private sources including Government bodies such as Local Authorities (Electoral Roll), HM Court Services (via Registry Trust Ltd) and organisations involved in granting credit, including all the banks, credit card companies, mortgage providers, mobile telecommunication providers and mail order companies.
- 3.5 We use this data to provide services to business, individuals and Government. In particular we offer:
  - consumer and business credit intelligence
  - portfolio management
  - ID verification and fraud prevention
  - decision-making technology
  - marketing tools
- 3.6 Our business model is based on secure, accurate data. As such, we invest heavily to ensure that our databases and business processes are in line with the principles of the Data Protection Act (DPA). In the UK we have received accreditation to the Government T Scheme, as well as BS 7791 and ISO 27001 which means our processes are defined, documented and checked every year.

*October 2009*

## Written evidence submitted by MoneySavingExpert.com

### Executive Summary

Make an application for a loan or credit card and the act of applying puts a search on your credit file, which in turn affects your credit score and as many products are rate for risk, it is impossible to know what you'll need to pay without applying.

This means some people apply for 8% loans, get told they'd be charged 16% and then see their ability to get a cheaper loan from elsewhere diminished because of that application.

Alternatively you can apply for a credit card for its cashback rewards, only to be told that you're getting a different card without cashback that you don't want. Yet again, the process of doing so potentially hurts your ability to apply elsewhere.

Sadly most cards and loans advertise 'typical rate' which legally only means 66% of accepted applicants get that rate. For those rejected the need to apply to another provider can lead to rejection spiral as too many searches, especially in a short time, can hurt both their credit score the process of consumers shopping around.

### 1. Site Users' Feedback and Experiences

- 1.1. After campaigning on the effect of shopping around for credit for a while MoneySavingExpert is very happy to be forwarding the personal stories of its site users as written evidence towards the Treasury Select Committee's inquiry into credit searches.
- 1.2. Our view is quite simply that consumers should be able to know EXACTLY what rate they will get before it's recorded on credit files.
- 1.3. The following responses were left on the MoneySavingExpert.com forums or emailed to us. Some spelling and minor corrections have been made, otherwise text is as provided. A range of stories sent to us about credit applications have been included. The emails have not been published on the moneysavingexpert website, therefore the identities of the correspondents have been removed.
- 1.4. Contributors were asked to keep their posts to around 100 words to keep the information crisp.
- 1.5. While a specialist money website, due to its sheer scale it is not a site frequented solely by Money Nerds. MoneySavingExpert.com users come from a complete cross section of society with all levels of income and personal circumstances. The site has 8 million unique users each month, and over 3 million recipients of the free weekly e-mail.
- 1.6. The contributions selected from site users do not necessarily reflect the view of the site itself.

## **2. Effect of credit searches: cases**

2.1 The following cases highlight the effects of multiple credit searches:

### **XXXXXX by email**

My experience within the last week of this unscrupulous way of searches being applied not once, but several times by banks and building societies is something that must be stopped.

My wife and I have sold our property and have found a 'new build' property that we like very much. I have been self employed for nine months and my wife has been employed for six years with a blue chip multi-national company. Our combined steady income is around £75k we currently have a mortgage with the RBS and decided to take the advice to shop around a little to see if we could better the rate.

We applied to RBS first to ask if they had another offer that would work out cheaper and as a comparison approached Barclays through an independent advisor. Only to find that the RBS could not help but Barclays had agreed in principle to a slightly better rate. We then was told by the advisor he could get a better rate from the Alliance and Leicester, so we said great lets look at theirs.

We ended up with so many searches to our good credit files that we were declined by all of the them (neither of us had any bad debt or late/missed payments), we were looking to decrease our mortgage as well from what we currently have.

We now find ourselves in a position where we cannot get any mortgage offer as our file looks like we are desperate for money. The other problem is they now want much more of a deposit (loan to value ratio) forcing us into a position where we may have to pull out of our sale just because we cannot get a mortgage for our new home.

The point being, not only is our credit rating now damaged beyond belief, but the bigger picture is this practice is stopping the sale of two homes, maybe more, in a climate where everybody else is trying to get it going.

### **MoneySaver fairfaxkid**

In the summer I visited my bank for the last 20+years Nat West for a loan. Advertised at 8.9% APR I was told I could only have 11.9% even though I had checked my own credit score and had excellent rating. I told them to hold it while I visited Halifax; only to be told that 11.9% was excellent and to go for it. When I quizzed Nat West I was told it was because I had had a lot of hits recently on by credit record. This was only because; on MSE suggestion; I had just changed my car; house; contents & utility bills to other companies. I was told that this would be the case for the next 6 months! So basically we are stuffed every time we switch providers? The only one making money at the moment is the banks.

## **MoneySaver DebtMagnet**

I had a mortgage advisor do 4 credit searches in the space of a week without my knowledge. I only found out when I applied for a mortgage independently and was flatly refused. Checked my credit file and saw the searches. Even though I had not asked for, or authorised them, I was told by several providers that there was no way I would get offered anything competitive while those 4 searches were there and the likelihood was that I'd be refused if I applied again, which would in turn harm my score even further, a vicious circle.

Although that's an extreme case and there was an incompetent advisor to blame, the result would have been exactly the same had I 'shopped around' for 4 mortgages/loans/credit cards to get the best prices.

We are encouraged to shop around for the best price on insurance, utility's, phones, food etc, and we can do this to our hearts content without any fear of it affecting anything in any negative way financially (quite the opposite actually), so why do banks and credit providers still have this power to practically destroy our 'credit score' for nothing more than trying to find the best deal?

The whole credit scoring world is shrouded in mystery and we are not allowed to know what each credit provider is looking for to get their 'typical rate', so the only way we can try to get it is to apply, and the fact that this then hinders you if you get offered a poor deal and want to try elsewhere is appalling and needs to be changed ASAP.

I was told it did effect my credit score and that I would be unlikely to get much as a result by a number of different providers, so made my decision on a mortgage based on that info (i.e. I went with one who'd already 'searched' my file, in effect reducing my choice to 4 providers rather than the whole of market). As it was people from sales departments who said this I took it as being correct in good faith, as they didn't want to even bother going through the process of trying to get me on board?

I don't know enough about it so trusted people who should on paper know more than me, so if anything it still shows how this subject can lead to people being easily confused and getting things wrong due to the lack of transparency with the whole system. It may have been wrong, but I didn't know any better.

I'm stuck with a mortgage product that I knew wasn't the best at the time but was scared to try anyone else as I wanted to apply for some 0% credit cards and didn't want to make (what I was told was) a bad situation even worse. In the end I waited 6 months before applying for anything and it looks like there may not have been a need for that either?

I have a number of other examples should anyone want them.

### **XXXXXX by email**

I went on the Internet to look for a much needed loan the cheapest rate was 6.9% with Black Horse so I applied. What followed was an absolute nightmare.

I received 24 phone calls over two days - each one passing me from department to department, asking the same questions and confirming I could have a loan, each time I expressed concern at all the checks they were doing and the imprint it would leave on my credit file I was told not to worry as they would not turn me down. The calls went to my home, mobile and work numbers - so much so that my boss travelled 7 miles to my office to find out why he couldn't get through to me on the phone. In one call a man spent 20 minutes telling me I could only have the loan with the insurance and refused to give me the price of the loan without the insurance - only when I quoted Martin's money feature on GM TV that I didn't need to buy their insurance did he eventually and very reluctantly back down.

At the end of the 2 days I had a loan that was more than I wanted, over a longer period of time than I had wanted for a much higher interest rate than had been advertised on the Internet - indeed higher than 3 other entries on the Internet but my credit rating was so screwed and I was so exhausted I had no choice. I look forward to the day I make the last payment and I will never trust Black Horse again. This system has to change otherwise they have us over a barrel every time.

### **XXXXXX by email**

When I first wanted a loan back in 2000, I took what I thought was a sensible approach and spent a day ringing loan companies looking for a cheap rate. I had never missed a payment with mail order companies, was employed full time and had a mortgage. I became worried during my last phonecall of the day, when the person I was speaking to asked if I had contacted any other companies. When I told him I had contacted a lot of other companies, he advised this could affect my credit score and my ability to get credit. I was shocked, none of the other companies had advised this. They had said they would do a credit check but this did not concern me as I knew I had never had any problems or bad debt.

I decided not to take a loan but some time later applied for a Marks and Spencer's card and was turned down. I had to send for my credit report and write a letter of explanation to M&S. Eventually they gave me a card and I was careful not to apply for any credit until my credit rating had built back up. I was too frightened to buy a Dyson on interest free credit because of the effect it might have.

I felt very embarrassed and humiliated by the whole experience. I thought I was being sensible. My partner and I eventually bought a car and sat in the showroom terrified that the credit application would be turned down, even though we could afford it and had no bad debts. The whole experience was dreadful.

**XXXXX by email**

I originally applied for an Alliance & Leicester Credit card (MBA) taking advantage of the introductory interest free period. I was fully aware that after this period, the interest rate would increase to its standard rate of 17.5% APR. When this happened, the country was in the middle of the recent crash, and I applied for a Virgin Credit Card to transfer the balance.

For the first time in my life, having never fallen behind on any loan or card, I was refused. I applied to some other cards but was also refused credit. Alliance & Leicester, knowing that I had been trying (unsuccessfully) to transfer my balance, then increased their APR from 17.5% to a whopping 34.9%.

When I questioned it, they said that they are entitled to increase their interest rate whenever they wish, and that I agreed to this when I signed the application.

**XXXXX by email**

I have always had a very high credit score, and have an exemplary credit history (checked regularly on Experian). I recently decided to apply for a personal loan, and decided to take advantage of Barclays' price match offer. I also simultaneously applied for a 0% balance transfer offer card to keep the cost of my required borrowing as low as possible. I submitted two applications to see where I could get the greatest approved credit limit. For the loan, Barclays advised me to apply online for a cheaper loan with another provider and they would then match that rate. I did this, but then Barclays informed me my loan had been refused. On enquiry, they told me this was due to my low credit score, which came as a great shock to me. After paying £5.95 to obtain my score from Experian, it seems this was due to a number of recent credit searches on my account. I am now stuck with a low credit score for the foreseeable future - I can't challenge this as the information is correct - even though my credit history is unblemished, and I am in stable employment and earning a high wage. This is a classic example of the vicious circle of credit searches leading to a reduction of choice and I now have to pay a much higher rate for the credit I can obtain.

**XXXXX by email**

I have no credit issues and have never missed a payment on any credit card or loan etc. I have just purchased a new car and wanted to shop around for the best rate. Using a MoneySavingExpert recommendation I contacted Alliance & Leicester and Sainsbury as they seemed to offer the best rate of 7.9% however neither would confirm the rate without a credit search. The first company I applied for was Allied & Leicester and they duly offered me the advertised 7.9% after a credit search. In the interim I had also applied for the Sainsbury's one to see what they would offer as they also said they offered the first 3 months without payment. They called to offer me a rate but offered 8.9%. When I queried why they had put the rate up the woman specifically said that it was most likely because it was the second credit search that had been done and since I had already applied for another loan this would have reduced my rating and would be why they'd offered a higher rate!

I found this very annoying as it meant that as you say it is impossible to shop around for a loan as the more times you apply the worse your credit rating gets. I can not see why your score should be reduced if you have not taken out a loan. I could understand if I was taking out a second loan but it was clearly the same one as I'd applied to both on the same day for the same amount. I therefore realised I could not apply anywhere else to compare rates without my credit score going down again.

Credit scores should only be reduced on the basis of hard facts e.g. additional loans being taken out, non payment etc. Not just because someone is shopping around to get the best rate. Companies should be made to offer a rate and not vary from it - they should simply make a yes/no decision on whether they offer that person a loan at the advertised rate or not. Otherwise - what is to stop a company offering a headline super-low rate that it never intends to offer to attract applications - then offering a higher rate after a credit search knowing that the applicant's score has now been reduced and they can not shop around? Disgraceful.

#### **XXXXX by email**

I applied for a loan with my bank LloydsTSB by calling the loans department. I went through the process quickly and with no problems and was quoted an APR of 8.1%. During the time the paper work was posted to me I decided to use the site MoneySupermarket to search around for better rates. I saw Alliance and Leicester offering 7.9%. I went through the online application for this loan and shortly after received an email saying I had been approved. I cancelled my LloydsTSB loan. When the A&L loan paperwork came in the APR was 11.9%.

When I called customer services I was told the actual APR was dependant on my credit rating - not the APR that was advertised, also no mention of this in the approval email. When I called LloydsTSB back I had to re-apply as I wanted a LESSER amount. This time however, after my credit check I was referred and asked a number of questions before I was approved. Proof that the searches had affected my credit rating even though all I had done was try and search for the best deal.

#### **XXXXX by email**

In the last year, I've applied for two different loan products as my wife was having a baby, and we were looking to consolidate some of her debts and my debts down to try to save ourselves some money for when the little one turned up.

The first was with Sainsbury's loans, as suggested by your website as being the best deal at 7.9%, and it was by a long-shot. However, my application was rejected by them, and I thought nothing of it until about a week later I was again contacted by them to be offered a rate that was almost double what I'd applied for at 14.9%.

However, by this point I'd already moved on to talk to my bank, with whom I've had a long-standing relationship (yes, I know I shouldn't, but I've found it to be to my advantage when dealing with them in the past, and it worked out this time as well). Typically, their rates are 9.9%

which was the rate that I applied for. After some to-ing and fro-ing, however, the rate I ultimately ended up with was at 12.9%. This ended up being the best option for me, and to be absolutely fair to hsbk there were some glitches in my cashflow (work hadn't paid me on time once or twice, and that made them nervous) that put me further up their risk matrix. So, two applications both ended up at a higher rate than the one I applied for initially.

#### **XXXXX by email**

I called the Halifax bank to get a settlement figure on a personal loan because I was looking at consolidating my debt and I'd had been offered a rate of 7.9% by another bank. I was told by Halifax that I had a guaranteed £13k that I could borrow at the same rate of 7.9%. I agreed to call them back with the exact amount I wished to borrow but the line was busy so I went into a local branch the following morning. I was told the branch didn't have that rate but they could process an application to see if they could get a lower rate. I specifically asked that no application be processed as I would just call the telephone banking. The branch loan offered me a rate of 10.9% which I declined but when I called the telephone banking from the branch, I was told my guaranteed rate has disappeared. Because they completed the process which registered a credit search, I was refused the loan from elsewhere and had to end up taking the Halifax one at a rate of 10.9%.

#### **XXXXX by email**

I have just been caught in the loan application scandal. To explain I was left 50% of a will which included a house from a family member so I needed a small amount to buy the rest of the house. Thinking of the best way I could do it I put in the hands of my financial adviser only to be knocked back and now when checking my credit report because he has looked elsewhere there is a lot of searches which now has put me with no chance of getting this mortgage, and to make matters worse some of the companies are trying to charge me hundreds of pounds because I have been turned down.

#### **XXXXX by email**

When applying for finance on a car I purchased earlier this year, I passed the credit check and had been accepted for the loan (finance) when I returned to the garage a few days later to sign the paperwork the sales assistant realised he had used the wrong car on my application. So, he filed a new one and re-submitted it. It was declined. We couldn't understand why this had happened so he rang the Head Office, they told us that since I had last applied, my credit rating had lowered. This meant I had to use another company to finance my car, with a higher interest rate which meant my monthly payments went up from around £150 to £180!! The stupid thing is, if the sales assistant had put the correct car on in the first place I would have been accepted straight away (as I originally was) and would be paying a total of £1800 less for my car (over 60 months)!!!!

#### **MoneySaver GAB**

Shortly after buying my first house I decided to exit my company car scheme, opting instead for the cash. Being a savvy consumer I shopped around for the best loan rate to buy a car, but at every

turn I was offered a far higher rate than that advertised. It was only after the third or fourth loan application that I learnt that each search left a footprint that potentially made further searches look worse!

I then got very worried, having already applied and had several searches. I applied to Experian and Equifax for my credit history and they both came back very healthy, further confusing me as to why the rates I was offered were so high. However, I was now stuck in a catch-22, I wanted a decent APR but was worried about leaving credit search footprints.

In the end, I went to my bank (NatWest), with whom I had a long and good relationship and they immediately offered me a loan. It wasn't the best rate available but was certainly better than all the others I'd been offered. So, I got my loan but was still very annoyed about the penalty of searching around for the best rate.

Something I never got to the bottom of is why I was always offered rates so much higher than those advertised. The only thing I can think of (given my clean credit history), was that having just bought my first house the banks must have felt I was at a higher risk of defaulting on a car loan. If this is correct, it clearly demonstrates why people should make decisions about loans rather than computers as, what they weren't factoring in was that my company was now giving me money, in lieu of a car, with which to pay the loan. Something a human could have factored in.

### **MoneySaver j-dub**

I had an Egg card and an Egg loan... I decided it would be a really good idea to try and consolidate them both into a single loan as that way I'd be able to completely pay them off over 7 years and should be paying less interest than I was paying on the Egg credit card and loan combined. I worked it out using the APR (around 9% if I remember correctly) on my existing loan and my payments were affordable, so I went through the hassle of filling in all the forms online to get this consolidation loan. The forms had sections to allow paying off existing loans and even cards... after spending a while filling in the online forms, and having a credit check, I got to the final page where it told me that they would do me the loan I wanted... only at 29.9% APR! This made the payments significantly MORE than the credit card payment and the loan repayment together and meant that the total interest I was to be paying was MORE than both the previous card and loan added together! When I called them to find out why, I was told that "that's the way the system works... You've already got a loan and a credit card with us".

### **MoneySaver foxwales**

I took out a loan with Alliance & Leicester in February 2008, they advertised an APR of 7.1%, which was one of the most competitive deals on the market at the time; so, I called them up and proceeded through all of the questions to find that I had been accepted for the loan, however the interest rate which they were offering me was 8.9% APR.

Although the rate offered was somewhat competitive, I did know the ramifications of my application having an affect on my credit rating, so I accepted the loan at that rate. A few months down the line I wanted to borrow an additional sum, so returned to Alliance and Leicester who approved my additional borrowing.

However, what they didn't tell me until after they had approved my additional borrowing was that they would lend me my original borrowed amount with the additional borrowing on top, then deduct my existing loan from the new loan and then apply an interest rate of 11.6% APR onto the whole amount borrowed!

I was quite put off actually looking for a better deal than this because I now had two credit checks carried out against my file in such a relatively short period.

#### **XXXXX by email**

I had an experience with this a couple of years ago. I decided to apply for an unsecured personal loan for home improvements and obviously tried to get the best deal by comparing APR's. I spent hours researching this and even checked out my credit file, this being rated at good/very good, to ensure that I had a good chance of being offered credit. Finally when I settled on my choice, in this case Northern Rock for about 5.5%, I placed my application. To my horror, the APR they offered me was nearly 9%.

I was now at a loss at what to do next. Did I make an application to someone else and risk getting offered an even higher rate? In the end, as I did need the loan, I decided to go through with the Northern Rock offer.

I have never understood how the current method actually benefits anybody. Surely the lenders want to encourage people through their doors but if they aren't open and upfront people certainly aren't going to be rushing to recommend lenders, and the lenders who are actually being honest about their 'higher' rates of interest aren't going to attract any business as the lenders making false promises are stealing the business by default. Had I not have feared having a footprint left on my file I probably would have made at least 3 more applications.

#### **XXXXX by email**

I bought a new Skoda Fabia recently. The dealer offered me a rate of about "5%". I thought this was pretty good and went away to think about it. I ran the numbers (~£250/month for 24 months for £5,200) and realised they were quoting flat rate, not APR. I had an offer from Alliance and Leicester in the post offering me, as an existing current account customer, an unsecured loan for 7.9%. The loan offer was also MSE's best loan deal at the time, so I cancelled the Skoda finance and applied for the A&L loan. I got an e-mail saying I was accepted [1] so I paid for the car on credit card and the loan paperwork came through a few days later.

I was shocked to see that despite having had a savings balance of several thousand pounds for several years (I'd just spent it on a house) and always being in credit by a substantial amount (I earn £35,000 a year), I was offered at 10.9% APR, £242/month for 24 months. So, it's still a little cheaper than the Skoda finance, but I've lost the ability to overpay and clear the loan early, or the ability to get a better rate somewhere else as a) the application will have hurt my credit history, b) I didn't have enough time to get a loan accepted elsewhere before the credit card was due.

[1] "Good News! Your loan application has been accepted and your documents including the APR we can offer to you will be sent in the next available first class post. Upon receipt of your agreements, please read, sign and return to receive your funds. Thank you."

#### **XXXXX by email**

Last year I was considering consolidating credit card debt when I got a letter from Norton Finance offering loans at 8%, lower than the rates on my cards. I rang up and said I only wanted an idea of payments as I didn't want a footprint on my credit file. I had recently moved in on my own which meant applying for lots of credit at once, and having an address I had not been at long, and having no landline, so I was wary of the effect on my credit rating.

I was assured no footprint would be left went through all the questions and was told black horse would offer me a loan. I was put through and went through everything again only to be told that they would offer me a loan at 30% APR. I balked at this and flatly refused to which I was told I should take it as the state of the economy meant I wouldn't get a better deal! I was not desperate and ended the call, to find out that this had left a footprint on my credit file. I was so annoyed!!! Now I constantly receive junk mail from Norton Finance which is so annoying!

#### **XXXXX by email**

I have two loans with A&L. One is at 7.9% and the other is at 8.9%. I decided to purchase a new kitchen and applied for additional borrowing on my mortgage. I would have been credit searched. I decided to not go ahead with that. Then I entered into an interest free offer with the kitchen supplier, 5 days ago. I then thought I would amalgamate by two loans with A&L and borrow an additional sum. They initially quoted 8.9% (subject to credit search) and then after the search, offered me 13.9%! This would also have meant I would have been penalised for one month's interest for early redemption and then charged an extortionate rate. I've decided not to go ahead.

I usually have a very good credit score (I used to work for a lender so know this for sure), but due to being searched 3 times in a short period, it's obviously affected my credit score. I have had credit of some sort for the last 22 years and have never missed a payment of been late.

#### **XXXXX by email**

I have taken out a loan for a car. I decided on the rate offered at Nationwide. The rate finally offered was higher and not as appealing, but if I had applied for another loan this may have affected my credit rating adversely. I proceeded with the Nationwide loan though I was not

confident that I had got the best deal. The car company had also applied for a loan for me although I did not request this. I was told it had been approved should I decide that I wanted it. I realised this application may have had an effect on the rate offered to me.

#### **XXXXXX by email**

I applied for a Tesco loan at 8.8%, however when it went through it has gone up to 17.9%!! I have to go for it though as I need to get off a 0% credit card I made a late payment on so will lose the 0%... Not good!

#### **MoneySaver samshocker**

About three years ago, I applied for a low rate MBNA platinum card. I was telephoned by MBNA to be told I was successful, and an agreement was posted for me to sign in order for the card to be issued. It all seemed very straight forward.

I was sent two copies of a lengthy agreement, one for me to keep and one to be returned asap to MBNA. I was disgusted that hidden in the depths of the small print was the APR, which was around 14% higher than I had applied for. I phoned MBNA to complain, they tried to pressure me to sign up and return it by stating that it was still an excellent deal 'given my situation'

I never did sign it or return it. Instead I felt misled and surprised by the lack of clarity around the actual rate I had 'qualified' for. Had I have signed it and returned it, I would have already been committing myself to a substantial balance transfer at a rate that was worse than the current provider at the time.

MBNA felt vindicated as it was written in their terms and conditions that circumstances may not allow you to get the rate. But it wasn't clear, or in plain English and worst of all, not clear from the application stage.

#### **MoneySaver Eric Pisch**

I wished to get a new cash back credit card so I applied for an 5% card but was turned down as I had applied for a loan recently (which I had not taken out) which had affected my credit rating. I applied for a different cash back card a few months later (unaware of the negative impact credit searches have on your rating for 6 months) and effectively destroyed my credit rating for 6 months.

The current system penalises the consumer for "testing the water" and effectively locks them into one credit application every six months and forces them to take that sole application. The rating system needs to be changed so that checks do not affect your rating and that only credit taken out is scored.

### **XXXXX by email**

Following some cost issues on an extension we were building on our home I 'parked' some debt on a credit card using a 0% purchases deal. I swapped this debt around to keep it interest free for some time. I ran into problems when I applied for a few very good deals on credit cards and loans (apologies I don't have the detail to hand and with a 2 month old child and a business to run I don't have the time to dig it all out).

I think it started with a loan it offered a great rate, but despite having a great credit rating (but admittedly quite a lot of debt (£18k) on cards) I was not offered the 'headline' deal, but something that was about 3% above that rate.

I then decided to stick to cards, but in my subsequent applications I was rejected either completely or given a poor deal, something that had not happened before. I was advised by one kind lady (no one else made it easy to find out) the reason - I had made a few applications and this went against me in the decision.

I also think it would be helpful if as a matter of course the banks were made to give you a detailed response to your application - i.e. exactly why you were rejected or why you got a poor rate or poor deal. It can only serve to help people understand their situations better and manage them better.

### **XXXXX by email**

I started trying to get a credit card over 2 years ago.

I have been residing in the UK (from New Zealand) since July 2007.

I have always been employed in the UK and earn in excess of over £45,000(gross).

I have not had a credit history in the UK before this date.

I made a host of applications at different times with no success. I approached my bank and was told that the repeated applications actually worked against me and I don't have enough credit 'history'.

I then subscribed to 'Credit Expert' and monitored my credit history, in summary it read as 'no issues'. I have continued to pay my bills and also registered on the electoral role. After a few months I un-subscribed and recently approached my bank. I have still been unsuccessful at gaining a credit card and no one has given me a valid reason for not supplying a credit card.

### **MoneySaver cakey**

I got stung well and truly by Virgin once. I applied for a loan at 9% to consolidate credit cards which were at 16%. I went through the whole process spoke to the under writers and he said he was pleased to offer me the loan at 19%!! I refused as this was more than my credit card rate, even though I refused to take the loan it still shows on my credit report... and the credit report doesn't show I refused only that I didn't take it... gutted.

### **XXXXX by email**

I applied for a Halifax Plus credit card last week. The website advertised the card as being at a typical rate of 16.9% APR (variable). I finally got my documentation through yesterday and the rate I have been offered is 21.95% APR which is considerably higher. I am now reluctant to commit to the agreement as the rate is even higher than the card I wanted to do a balance transfer from (19.94%). If I had known before applying that I would be offered a 21.95% rate I would not have applied for the card.

### **XXXXX by email**

When I was a student nurse I had my car stolen and had to buy a replacement. I had a loan outstanding on the stolen car so decided to consolidate to be able to afford the new car. I applied for a loan with an APR of 6.7% however on application I was offered 10.9%. I had to accept this as if I applied for another loan it would show up and penalise my credit rating. The loan company albeit a reputable one made an opening offer but then moved the goal posts.

### **XXXXX by email**

I recently enquired about a new loan application with my bank Alliance & Leicester. I regularly check my credit score with Experian & did so before the application - had a very good rating so was expecting to be offered a loan at the advertised rate of 6.5% typical. My application was rejected - with no explanation - and I was put thru to "one of their partners who may be able to help".

The "partners" were unable to give me any information on the loan rate I could achieve without credit scoring me and I was not inclined to go thru the process again as it would adversely affect any decisions in the future. In the meantime I checked the partner's website & saw that their "typical" rate was 28% APR. I did not proceed - but was unhappy that A&L would give these loan sharks my details & wondered what the benefit was to them to send me to another source at much higher rate without my full knowledge.

I am now shopping around to switch banks and have not proceeded with any further applications. This practice should be investigated - it is very easy for unsuspecting individuals to be misled.

## **1. Rate changes: cases**

- 1.1. We also received a high number of examples of rates rising from the 'typical' without apparent reason or warning, restricting borrowers to the rate offered if they don't want to add another search to their file.

## **MoneySaver suze369**

During a call to discuss my current account I was solicited by my bank Smile to take out a loan to clear my credit card balance with them. I didn't really want to as this would tie me down to a fixed term when I really want to clear it as quickly as possible. The agent quoted me that I would pay an

APR of 7.9%, which seemed a good rate so I agreed to letting someone call me to discuss it further.

A week later I received a call from the Smile loan team and I recapped the conversation with his colleague including the APR given. It was only once we commenced the application process that I was given an APR of 16.9% instead! No clear reason was given and the agent said 'well you were overdrawn in April and May, so that will be why'. I can't deny I was overdrawn but only on the last days prior to each pay day, and then only by <£5 and have had many years of being in the black with them. Needless to say I stopped the application.

### **MoneySaver Idiophreak**

I applied to Sainsbury's earlier in the year for a loan advertised at 8.1% "typical". Upon application I was told my rate would be 12.1%. I questioned this and they told me to consult my credit file. Which I did. As I suspected, my credit file showed absolutely nothing amiss, a number of accounts, not a single missed payment...I did the "give me my credit score thing" you can do on the website and it said my score was 999/999. I was living with my parents, so had little in the way of outgoings and I earn a decent wage.

Armed with my credit report, I then went back to Sainsbury's and made the point that clearly my circumstances and credit rating place me far above "typical" in terms of my ability and likelihood to repay the loan, so why was I being offered above the typical rate? I was then told that it could have been due to the amount of the loan I'd asked for or the term of the loan requested.

I tried to make my point several times that if it were these things that caused the rate to increase (or any other "internal criteria" for that matter) it was immoral, at best, for them to run a credit check - and thus footprint my file - for a loan on which I was never going to be offered the rate I'd applied for. Needless to say nothing ever came of my complaint.

It's about time there was a little transparency added to this process and lenders should be more accountable and explain their scoring decisions. This "it's not our fault, write to the underwriter" get-out they seem to operate is ridiculous.

### **MoneySaver dnrc**

About a year ago I wanted a 4 grand loan to buy a car. I looked around and eventually applied for a Barclay's loan at 8%. I have a good credit record and rating but when I got a letter a few days later I had been accepted, at 30%!!

### **MoneySaver mhoward18**

I have got a very good credit rating but I am self employed witch tends to go against me. When I applied for a loan at 5.9% I ended up getting a rate of 7.9%. It wasn't a bad rate but still what's the point in responding to someone's advert making you believe you are going to get a very cheap loan when that's not what you get.

### **MoneySaver lamaar75**

I applied for a credit card with Marbles, it quoted their APR as 14.9%. I wasn't moving any money and only needed it as safety for an online transaction. Anyway, I was successful and advised that card would be sent in the post. When it arrived, the APR was 19.9%. I phoned them to ask why and was told that hardly no-one gets the 14.9% but they have to put that on their website as it is possible. I think it is disgraceful that you can be misled like this.

### **MoneySaver stuart79**

I recently applied for an Egg Money card to use for cashback when I couldn't use my Amex platinum cashback card. I am a foreign national, unable to get onto the electoral roll, so was denied by Egg at first. I sent a letter to them and had a phone interview asking about all my accounts and balances (savings, other cc's, ISAs), then was told that due to it taking them a while to get back to me I'd need a fresh hard search on my credit file if I wanted to go ahead with the challenge.

To cut a long story short, I received my egg card in the end, but my rate is 21.9% + £1/month, which is a good deal more than the 16.9% advertised + £1/month.

### **MoneySaver louieob**

Today I applied for a debt consolidation loan from Halifax/Bank of Scotland after receiving continuous offers through my internet banking account to apply. It was offered at a rate of 8.9%. I got an e-mail advising it had been approved in principle and I had to call to confirm some details.

When I called, I was told, it had been approved at a rate of 14.9% due to underwriters looking into my application and personal details. I asked what the criteria was and what in these 'personal details' that made the rate jump so much, but there was no specific information they could give me. I replied that I had a really good credit history, and was told the decision may not be related to my credit score.

### **Additional comments on the above from MoneySaver Idiophreak**

This is the bit that really winds me up - if the decision isn't to do with the credit score, they should tell you you're not going to get the desired rate \*before\* they go on and dent your file. I really think it's completely unethical for them not to do so...and it ought to be illegal.

### **MoneySaver ClareP**

This happened to me a couple of months ago with Alliance & Leicester. I was in the branch and they offered 8.9% on a loan and once the application went over the system it was calculated at 11.9%!

### **MoneySaver PUREHOMES**

I use internet banking (Barclays) and noticed I had a pre approved offer of a loan at 7.9%. I applied as this rate was lower than my current debts, with the idea of consolidating them.

When I got the paperwork through, it actually said 17.9% on it. I phoned to query this, and was told that 17.9% was the correct rate being offered to me.

### **MoneySaver hecjb**

Applied for a £27K loan over 7 years. The rate stated on application was 8.0%, or 8.2% with an immediate payment break of two months. For personal reasons we took the payment break but the actual loan we got has a rate of 9.9% APR. Needless to say I will be paying it off as soon as possible. As far as I know my credit history is clean as a whistle yet my rate was elevated for no stated reason.

### **MoneySaver adamwantsadb9**

I applied for a loan with Lloyds TSB, I have one of their Premier Accounts that I pay £25 a month for. I was told that since I had one of these accounts I was eligible for a loan at the rate of 5.9%. I applied as I needed to decrease my outgoings and was then hit with a rate of 19.9%.

I was told at the time that my 'risk score' would decrease within a few months if I kept the payments up, I have since made 19 monthly payments, on time and in full and if they were to offer me a loan now, it would be at a monstrous 24.9%.

### **MoneySaver powerful\_Rogue**

Applied for a loan with Asda 3 weeks ago to cover the cost of double glazing. The advertised rate was 9.9% typical. Went through the process and at the end was advised I had been accepted at 17.9%. Phoned Asda up straight away and asked them to cancel the loan. I've got a Virgin credit card with a limit big enough at only 15.9%. I then phoned Barclaycard who I have an account with and asked them to increase my limit, which they did with no problems, APR 9.9%.

### **MoneySaver DeskBob**

I currently have a loan with the Halifax, which I took out about 18 months ago. I can't remember the exact rate advertised, but it was well below what I finally got the loan for (8.9%). At the time I applied to at least two other lenders who gave me higher quotes, both these were also well above the advertised rate.

This practice is unfair and wrong, and the system is also wrong, as each search puts a mark on your credit score. I know the banks want to protect themselves from people applying and cashing multiple loans, but there must be a better way. Of course the danger of forcing banks to give one loan rate is that they may decide to just offer one high rate to everyone.

### **MoneySaver kadiea**

You very rarely get the 'typical' APR rate or as I call it the 'temping' APR rate, it is obvious that the APR rate is there to make you apply. My dad got a Tesco clubcard credit card, was offered the usual 12 month BT 6 month Purchases. My dad has a spotless credit history, fully owned house,

assets and high income. But when he applied they offered him 19.9% even though the 'typical' APR is 16.9. It may only be 3% but credit shouldn't be expensive just because the banks !!!!!ed up. Oh and you don't have to miss a payment or have a lifestyle change to get your credit limit dropped just be a customer. They will decrease your limit so that next time you get your statement you're over limit, or you get declined in the shop. Then you get 'over limit charges, fair enough when payments were not direct and the transaction system relied on little slips of paper but NOW what's the point?

Why let a credit card go over limit, and usually only by about £20? Oh sorry I forgot, so that everyday people have to hand their hard earned money over to the bank, it doesn't matter if the children have school trips, the bankers have to put their children in private school. Oh and if you start using your Santander card all the time for everyday purchases and paying off the balance in full, expect a letter telling you your account is being closed because you are not using your card enough!!! On top of the fact you were offered 15.9% and got 22.9%.

#### **XXXX by email**

Around 2 years ago I applied for a Capital One credit card. The advertised rate was very low I think around 12%. I got the card without problem. I used the card for over a month only to find that when my bill came (over £1,000) the interest rate was actually 29.9%. Of course I paid off the bill immediately and cancelled the card. The rate of 29.9% was not mentioned on the letter of acceptance or anywhere in the information but it was in some very small print in the terms and conditions (who reads it all?). Had I not been in a position to pay it off in full I would have had the exorbitant charges (more like store card rates). I rang Capital One and they said I was high risk and that was why I had been charged the high rate. I had 3 other cards, a mortgage, bank loan and other arrangements all without problem. I am self employed and this, according to Capital One made me high risk.

#### **XXXXX by email**

I received an unsolicited letter from Barclaycard (I am a Barclays Premier customer and have an offset mortgage, current and savings accounts) saying that I was guaranteed acceptance for a Platinum card at a rate of 12.9%. As this was the best rate Barclays had offered me to move my credit card from HBSC, I applied. I then received a letter saying that I had been accepted for a card other than the one I applied for with a rate of 24.9% (higher than HSBC). I did not realise that applying with my current bank would affect my credit rating, or that my "guaranteed acceptance" was not guaranteed at all. I did not take up the credit card but have since had another similar offer and one for a personal loan from them.

#### **XXXXX by email**

I used moneysupermarket.com to find a £10000 loan. Black Horse Finance had the best interest rate of 7.9% on an exclusive offer with Moneysupermarket. As I met all the conditions, I applied

and was accepted in principle but had to visit their offices in Maidstone to complete their paperwork.

My wife and I went to Black Horse's offices yesterday and, after a long interview which included a significant amount of time trying to sell me insurance, was told that the best rate they could offer me was 9.9%. I turned down this offer as I regarded their methods as under-hand. This is false advertising on the part of both Moneysupermarket and Black Horse Finance and an underhand way of trying to sell me insurance I neither want nor need.

As has been pointed out, this application leaves a "footprint" which could be detrimental to any future loan application I may make and wasted a whole day responding to an offer they were not prepared to deliver.

#### **XXXX by email**

Prior to applying for a balance transfer credit card, my score was 999. I wasn't aware that balance transfers did not include 'money transfers to bank account'. I applied to three providers and although approved, I only opted for MBNA as they fulfilled my needs. I cancelled Barclays (the other one was post office) but now my credit score is low because of three searches in a week. Post-office one signed me up to identity fraud and it's not easy to cancel straight away.

#### **XXXXX by email**

I recently opened a current account with Alliance and Leicester as this came with a regular savings account with high rate of interest. I had just moved house (I did not have bills etc to prove my new address and was not on the register to vote at that address as yet) however the offer was due to close by the end of the week. I explained this to the staff and was told it was not a problem if I could bring in documentation as soon as I had it. She suggested I applied for a credit card as there was a good cash back offer on. I said I would think about it as I already have a credit card however she informed me if I waited they would have to do a second credit check which would go on my credit record; If I applied that day only one credit check would be done. I therefore applied for the card. The following week I was able to provide correspondence with my new address and was accepted as a customer. I then received a letter turning down my application for a credit card. I obtained from Experian a copy of my credit report to find THREE searches had been done: one by for the credit card, one for the current account and one for identification: money laundering prevention. Needless to say I have written to complain, asking for the reasons for their decision and that my record be amended. They are currently making investigations.

#### **XXXXX by email**

Last week I phoned Barclays with a query on a cheque payment. After this was sorted out the advisor noted that I had a balance on my Barclaycard and told me I was paying 24% interest rate and if I took a loan with them to clear the balance I would only pay 15% rate. After a 20min call going over an application I was told at the end I had been accepted for the loan and had to log onto my online banking ac to complete deal. When I logged on I discovered loan rate stated 25%

rate. I queried this and was told it was all they could offer me. It was even more than I am paying Barclaycard! Ridiculous.

**XXXXX by email**

I recently applied for a loan online with my bank and was told I had been accepted, I thought at rate of 8.9% When paperwork came through the rate was 13.9%. Decided to try Tesco who I have a credit card with but was refused. I think my credit rating is ok. I have a few late payments perhaps but none missed.

**XXXXX by email**

I recently applied for a loan at Alliance & Leicester at their 8.9% rate. As someone who earns an above average salary, has less than £2,000 credit card/overdraft debt, a secure job and is responsible with money (I have an A&L current account so they can see my spending habits) I was confident I would get the rate. I didn't. They offered me a staggering 11.9% which I rejected immediately despite them badgering me to accept. I must be a low risk borrower surely?

**XXXXX by email**

I was sent a marketing letter inviting me personally to apply for a Capital One Platinum card (despite being on the mailing preference list). The rate was attractive, the 0% balance transfer fee low and the life of the transfer at 0% was 1 year. I was looking for a balance transfer so I applied. I was sent a letter to sign but I noticed it was not for the Platinum card but some other card of theirs with a higher APR and only a few months 0% balance transfer. As I have no adverse credit and a good rating I wonder who exactly is eligible for the one originally offered. I did not sign or return the letter and continued to receive mail from Capital One until I contacted them to complain. I did not apply for the standard card, if I did not get accepted for the Platinum (who does?) then it is unethical to automatically set me up with a sub-standard product for which I did not apply. I was offered no explanation.

**XXXXX by email**

I had a bad experience with Abbey bank, now part of Santander, last month. I needed to borrow £4,000 over 2 years to cover the purchase of a new car for my wife. As usual I made a search of the internet comparison sites to see which lender would provide the most competitive rate. On this occasion Abbey came out as being the best offering 7.9%. I followed the link through to Abbey's website and again the 7.9% rate was shown as being available. As I was not an Abbey customer I had to apply by telephone rather than on-line.

After providing all my details over the phone I was told my application had been approved but the rate would be 13.9%. I declined the loan and went elsewhere. I cannot understand why this rate was so far above the one advertised. I am a 40 year old married man. I earn in excess of £35k per year. I have a relatively small mortgage, have never missed a payment in 15 years. I have a current account on which I have never gone overdrawn ever. I have 2 credit cards with balances that are paid off in full each month. I have had several personal loans from banks in the past and

have always paid them off fully and without missing any payments. I have always had the best credit interest rate made available to me so it hit me as quite a shock to find the Abbey wanted me to pay a "sub-prime" rate.

I do not regularly check my credit rating as I have never had problems but no doubt Abbey will have done a search of my file and this may, in the future have a negative effect on my status. I would welcome any government action to address this problem. The banks have taken this country to the brink of financial ruin and now they are adopting practices which can harm individuals financially.

#### **XXXXXX by email**

HSBC were advertising 8.9% typical APR, I was offered 15.2% although the paperwork said offer at 8.2%. I wanted to shorten the term which they claimed could not be done without a new application despite no paperwork being signed and no credit agreement in place. The staff suggested a new application, which then came in at 9.9% along with a high pressure sales pitch of other products.

#### **MoneySaver littlemisskitty**

A year ago I had to apply for a loan to help out in a family crisis, the company had sent me a letter saying I was pre approved advertising a 7.9% APR. I applied and ended up having to take a loan over 5 years at 29%. Desperate times unfortunately called for desperate measures but needless to say I'm now trying everything possible to finish this loan ASAP. Unfortunately I can't keep searching for a better provider as this affects my rating!!!!

#### **MoneySaver nettles**

Some time ago, I applied for a Capital One card. It was something like 14 month 0% APR then about 7.9% I think. What I actually got was 3 months at 0% then an interest rate of 22.9%. I have not missed any payments on any accounts in the last 6 years, and always paid at least the minimum payment on this card, sometimes more. The rate was recently hiked and is now almost 30%. Needless to say, it is being paid off as quickly as possible, and will only be used in an emergency.

#### **MoneySaver The Jester**

During 2000 I needed a loan and contacted Lombard Direct as they advertised their rate at 7.8%. After giving Lombard Direct all my details I was shocked to be offered a loan at just over 12%! When I protested they told me I was a risk and that is why I was put on a higher rate although when questioned they couldn't justify this. The odd thing was I have never defaulted on anything in my life and I earned over the national average! I declined and sold my car instead.

#### **XXXXXX by email**

I have a loan with Welcome finance and a car with welcome finance. The rates of interest in this are shocking. The car I have was initially advertised at around £6000 (can't remember the specific

amount) but after I applied the sales consultant told me that because of my credit history I had to be put on a higher rate of interest to everyone else but after that my interest rate will be lower when I take a new car. I was also told that after two years I would be able to hand the car back and take a new finance with them to get another car. This was not the case. They said If I handed the car back I would not get another one as I was a risk because by handing the car back it meant that I couldn't actually afford the payments.

## **2. General comments and suggestions on credit searchers**

2.1. We received a number of general comments about the issue, outlined below:

### **MoneySaver cheeryoleary**

I've felt there does become a point where the credit scoring/screening method in place becomes anti competitive and puts me off 'shopping around'. Reminds me of the OFT news today about a Cartel of building companies sharing information in order to get the best price for themselves. I'm all for sharing information in order to screen bad risk customers. After all, credit card companies have to remain solvent. What I do object to is the sharing of information which I would consider anti-competitive.

### **MoneySaver BenL**

The credit reference companies have a "quotation" search function but the banks and credit firms are not using it correctly. These companies need to be forced to use it for checking purposes and then when the agreement is taken out the full reporting of the facts.

### **MoneySaver Joe\_Bloggs**

Rate for risk is a double edged sword. It hinders the ability of a risky borrower to repay the capital and subsequent interest. Thus making it more likely that they will default. This thought process could well be a cycle in which lenders feel they have to charge more interest to make up losses, due to defaults/debt management plans, that their high interest rates have created.

### **MoneySaver bennosdelight**

Some banks and building societies do something called a 'soft score' on a loan which means that you find out what rate you are being offered without actually having the impact on your credit scoring.

I know that Nationwide do this and think that some of the other smaller people do as well but I'm not sure about the big players like A&L, HBOS etc.

### **Additional comments on the above from MoneySaver jinglespringles**

I do approve of all this being looked into however this 'Soft Score' doesn't always work, for example: I have just applied for a loan with N/W as I have banked with them for 21 yrs. I explained what I needed loan for, I got a 'Soft Score' of the advertised rate 7.7%. However when

they applied I got turned down, even the lady who was helping me could not understand why!

### **MoneySaver Rafter**

Totally agree with the campaign but think it is wider than simply searches being recorded. The banks also need to protect themselves from fraudsters who might apply for two loans simultaneously which in combination would be totally unaffordable.

The law needs to be changed so that loan advertising makes clear what type of customer will get the advertised rate or that customers who don't get the advertised rate are declined and told whether an alternative product is available but without any search being recorded.

I have previously worked for a loan company and know that they deliberately managed offers so that only 66% got offered the advertised rate - that cannot be right and is an advertising regulation working against consumers' interests.

Something also needs to be done about debt consolidation though, so that a customer can consolidate their existing debt at a reasonable rate, in return for surrendering their existing credit cards and loans. I.E. The consolidated loan would definitely be used to repay existing debt.

I also think that we need a 'debt reset' law that means if someone has built up debt more than 50% of their gross income that they can by law consolidate it into a repayment loan at say 10% APR rather than be at the mercy of credit card companies increasing their APR to 30%+ and tipping them into more drastic measures such as bankruptcy.

This would give credit card and loan companies a proper incentive not to lend too much and would mean that consumers with high interest rate debt would be able to pay it off over a reasonable timeframe rather than being stuck in a horrible debt spiral.

### **MoneySaver Moggles**

Credit cards have always been issued subject to status, but the *rate-for-risk* policy currently practiced by some lenders, takes things to a new level. The advantage to the lender is obvious. Their market-leading deals are heavily advertised to draw in new customers. If this results in a flood of applications (even though, in reality, they're dishing out something less attractive to large numbers of applicants), they're laughing.

In more than a decade of card shuffling, I personally have not been treated to *rate-for-risk* (yet), but judging from posts to this board, there's a lot of it about now, with many victims left unaware that another deal has been substituted, until the card and paperwork arrives in the post.

As always, it's the most vulnerable that are hit hardest. If you're paying crippling interest rates on a debt, the last thing you need is several more weeks of wasted time and effort, because your chosen lender sent you a substitute card, which is just as expensive as the last. Many suspect that

there was never any real intention to issue the advertised card, although there's no doubt some applicants get the flagship deal. (Is anybody checking the success rate and, if so, how often?)

Barclaycard and Capital One are among the worst offenders, but the worry is, that if they're allowed to get away with it, the practice will spread.

### **XXXXX by email**

Whether or not we are shown the interest rate up front, the issue is that we should be able to apply for any number of credit cards without it penalising us. The simple fact is credit enquiries should not be recorded. If you go into Phones 4 U and get a deal, then go to Carphone Warehouse they don't turn around and say, "I'm sorry Sir, because you have already been to Phones 4 U we can't give you this mobile phone"

I applied to 2 card companies 2 months ago. I now have to wait another month before I can apply to any more. This is unfair. We need to persuade the treasury to force the credit reference agencies to stop recording enquiries. Maybe a change in conjunction with a Data Protection Act request?

### **1. About MoneySavingExpert.com**

- 1.1. MoneySavingExpert.com is dedicated to saving consumers money on anything and everything by finding the best deals and beating the system and campaigning for financial justice. It's based on detailed journalistic research, cutting edge tools and has one of the UK's largest web communities.
- 1.2. The site was created in February 2003 by specialised journalist Martin Lewis, and is still 100% owned by him.
- 1.3. In September 2009 there were nearly 8 million users a month using the main site and almost 600,000 users registered in the forum.
- 1.4. This forum contains a huge community of MoneySavers. At any one moment thousands of people are talking about ways to save. It is split into many different subjects, each with their own mini-community and roughly 30 paperback books' worth of MoneySaving info is written each day.

*October 2009*

## Written evidence submitted by Callcredit

1. As the newest of the three consumer credit reference agencies, Callcredit has a unique perspective on the use of application searches in credit assessment, though we expect we will not be alone in voicing some of the key points which we present here.
2. Lenders are making less use of application searches as a factor in credit risk assessment:
  - Data variables are selected for use in assessment based on their statistical merit, and application searches are not as predictive of credit risk as they once were, probably as a result of consumers 'shopping around' more
  - Other indicators of risk are increasing in power. Alternative sources of information are gradually becoming more available, whilst existing data are being processed and used in more innovative ways
  - Each credit reference agency only records a portion of the searches that take place. Not only does this mean that the full "picture" of search use is not generally visible but also that any dependency on search use can make it more difficult to readily switch credit referencing supplier or ensure business continuity
3. Quotation searches do not offer a genuine answer to perceived consumer need:
  - Quotation searches are only suitable for use to establish what rate a consumer would be charged if accepted - not whether they would be accepted
  - If consumers were allowed some new form of quotation search that let them see whether they would be accepted, it would render search data worthless for risk assessment
  - Requiring lenders to extend the availability of quotation searches would make it more expensive to lend, with consequences for the availability or price of credit to consumers. Yet it would have very limited effect on the root of the perceived problem
7. While the predictive value of search data has decreased in recent times, we believe that the Committee will still find that application search data effectively predicts bad debt. Assuming this, a "complete picture" of searches obtained from all three agencies would hold far greater predictive power than the existing system:
  - Consumers would not then be subject to the arbitrary effects that may presently occur depending on the mix of agencies consulted by the companies they have applied to for credit

- The ability to lend responsibly, considered increasingly important at a domestic and European level, would be bolstered by enhancing lenders' ability to predict creditworthiness
- Removing a significant barrier to open competition in the highly distorted credit referencing marketplace would result in consumer benefit from lower prices at the end of the chain

### **Introduction – Callcredit**

8. Callcredit is one of the UK's three consumer credit reference agencies, which facilitate the sharing of data on how people manage their repayment commitments. Consumers have statutory access to the credit account performance data that Callcredit compiles on behalf of lenders, and we make optional online services available to meet more advanced consumer needs. We offer solutions to business to establish the creditworthiness and verify the identity of individuals, alongside other related products and services. Services offered to the UK financial services industry include:

- Credit Risk Solutions
- Fraud and ID Solutions
- Marketing Solutions
- Consumer Solutions

9. In the last few years the majority of the UK's sizeable lenders have moved to implement Callcredit products and services. The rate of growth of Callcredit's client base underlines the success of our approach.

10. Some areas where Callcredit has particular interests:

- **Data Sharing** - Greater data sharing has been proposed as an important step in detection and prevention of crime, and to support responsible lending, but must always be weighed against the rights of the individual and the risks of any possible inaccuracy or data security issues.
- **Over-Indebtedness** – Callcredit's unique consumer indebtedness initiative uses consolidated income and debt data to help lenders avoid extending new credit to consumers who may find it unaffordable, and to identify where existing customers are taking on excessive commitments elsewhere.

- **Fairness in Collections** - Callcredit seeks to provide the best available tools to enable responsibility in collection activity, to assist creditors to correctly identify and treat highly indebted consumers.
- **Identity Verification and Anti-Money Laundering** – Callcredit assists firms in meeting their obligations to prevent money laundering and protect against fraud through identity verification.

## **Evidence Submission**

11. Callcredit notes that evidence is sought on:

- The effect of multiple credit searches on individuals' credit ratings including the size of the change in credit scores;
- The extent to which lenders offer best practice quotation searches.

## **Effect of multiple credit searches on individuals' credit ratings**

12. Multiple credit searches have the capability to impact on individuals' credit ratings in one of three possible ways:

- As a policy reject rule, where having an extremely high number of searches could prompt rejection for credit. We believe it unlikely that any lenders now have such a rule in place.
- As a policy referral rule, where applicants with excessive numbers of searches filed against them would be subject to detailed review by underwriters to substantiate concerns about their creditworthiness.
- As an item within the credit scorecard, where applicants' scores can vary

13. We understand it to be “common knowledge” in the credit industry that credit searches are now less statistically predictive of bad debt and fraud than they used to be historically. Consequently, we hear our clients are using them less frequently, or are assigning less weight to them when they are used in risk assessment tools alongside other variables. It is likely that the effect of creditworthy consumers increasingly shopping around and having multiple search footprints logged against them has prompted a reduction in the ability of searches to predict bad debt. Indeed if consumers continue to increase how much they shop around, that could mean many more searches being undertaken by those who are more financially literate and capable. This effect could eventually negate the value of search data as a warning flag. Taken to the logical extreme, theoretically logging multiple searches might even become an

indicator of financial competence. Data variables are used in credit based purely on their statistical value to predict bad debt. There is no room for prejudice when chasing profit in a competitive market.

14. Search data will usually be of more consequence when prospective creditors have less information to draw upon, such as when younger people or others with a sparse 'credit history' apply for a mobile phone or a mail order account. Fortunately, the industry continues to widen the data which are shared to combat this effect. Payments data from the home credit sector has for example begun to be shared only in the last couple of years, while data shared by many credit card issuers now includes additional indicators of financial stress as warning signs. As this trend continues, more people who currently experience difficulty accessing mainstream credit because of a lack of data will find it easier to do so. Equally, with more predictive data available, search data will increasingly have less of a part to play. However, lenders currently use search data alongside other variables, for example levels of debt held and payments missed, to support responsible lending.
15. Callcredit cannot provide an indication of the variance in scores that may result from different numbers of searches logged against an individual. This is because we simply do not use searches in Callcredit's proprietary credit score. This decision was taken on an objective, statistical basis, rather than due to any subjective concerns on consumer impact.
16. Although established almost 10 years, Callcredit is the newest of the three credit reference agencies. While we have achieved impressive levels of growth in the last few years, the volumes of credit searches lodged with us are naturally less than those which are recorded and held by our two competitors. We have also made innovation a keystone of our approach and successfully created unique tools and attributes which offer excellent ability to predict likelihood of default without needing recourse to consumer search footprint data. Taking these two factors into accounts, it is perhaps unsurprising that credit searches were not identified to hold adequate predictive value to merit being included in Callcredit's scorecards.

#### **Extent to which lenders offer best practice quotation searches**

17. We understand from clients that the majority of them do not offer quotation searches. We cannot comment directly on their reasons for why this is so. However, we know their position is largely restricted by the conditions in place around the use of quotation searches.
18. Quotation searches were always intended to address the development of "risk based pricing". This practice allows lenders to assess applicants and, if they fail to reach a required level of creditworthiness, offer them a higher rate. It supports financial inclusion, by allowing lenders to accurately reflect the increased risk which they run by lending to a higher risk individual in the price it offers, rather than rejecting them outright. There is however an attendant risk

that the rate which the individual is eventually offered will be more expensive than they had expected or even that they can obtain elsewhere. This effect instigated the introduction of quotation searches and formed the basis of the rules around their use.

19. Quotation searches are therefore only intended to provide the means to obtain the price of credit. In order for a lender to offer a quotation search, rules dictate a “risk based pricing” scenario must exist. A quotation search hence only allows consumers to establish what rate they would be offered by a lender *if they were* to be accepted for a credit product. It does not establish whether or not the consumer *would* be accepted for the product. It is therefore currently unusable in any case where a lender offers a product at one single price. It would be of no value to a consumer who was trying to decide which of three loan providers who each offered only one rate might accept him, as he could not establish this without fully applying.
20. Multiple applications are predictive of risk essentially because they identify where consumers are making repeated applications for credit but being consistently rejected. Therefore, any attempt to extend the boundaries of use of quotation searches to confirm whether a consumer would be accepted would be self-defeating. It would completely remove the current ability of application searches to predict risk as consumers would simply never apply without first confirming they would be accepted.

## Conclusions

21. Callcredit believes that if the current system continues the statistically predictive value of searches will continue to decline and they will be used less and less in credit assessment. Offering more quotation searches could slow the rate of decline, but probably would not stop it. There is very limited scope to widen the circumstances in which quotation searches can be used without undermining the predictive value of application searches.
22. In most situations search data can only offer “fine tuning” of the credit assessment. Common sense alone dictates that someone applying for a few credit cards will never have as strong an effect on their credit rating as them defaulting on a loan, missing mortgage repayments in succession or being taken to court and judgment (a CCJ) obtained against them. Much is being made of the effect of search data, perhaps beyond its actual value in practice.
23. One reason for the relative lack of importance of credit searches in assessment is that credit search data are held only by the agency which has performed the search. One agency holds a dominant position in the market, logging the majority of all application search footprints. The other two agencies do not have access to that data.
24. Not sharing application search data limits its potential to predict. For example, if a consumer made five applications that all went through the same credit reference agency, that could affect their score with that agency. Their score would not be affected if the five applications

passed through a second agency, or would be less affected if applications were spread between the three agencies. In the latter case, a lender would not see all five applications unless they consulted all three agencies. Some lenders have now started using “multi-bureau” systems which can draw upon the combined data of two or three of the agencies rather than relying only on one. This helps to combat this effect by aggregating searches as well as allowing them to compare other differences in the data provided by the agencies.

25. In some cases we have been told that lenders are “managing out” searches from their scoring criteria because of the differing volumes of searches between the credit reference agencies. It affects their ability to potentially change from one agency to another which is increasingly desirable for business continuity purposes and is an additional feature of the “multi-bureau” approach.
26. Callcredit suggests that search data has real, but limited, value in bad debt prediction, having little general impact on consumers save as a ‘tipping point’ in some lending decisions where it may warn of an inability to cope with debts. On this basis it would seem disproportionate to require lenders to make unnecessary changes to their business processes to accommodate quotation searches. Increasing the costs of lending might prompt a further decrease in credit availability – or an increase in the cost of credit to hard-pressed consumers. The industry already faces extensive costs through implementation of new regulation, including the Consumer Credit Directive. Consumers could instead be reassured by the Inquiry of the minimal – and decreasing - impact of shopping around.
27. This Inquiry also comes at a time when “responsible lending” has never been more relevant. Lenders are being urged from all regulatory quarters to make use of all the tools available to assess consumers’ capability to repay before they extend an offer of credit. Credit search data offers one unique tool which can help meet the need to lend to consumers who may already have overextended themselves.
28. Callcredit invites the Committee to agree that application search data remains usefully predictive of bad debt. On that basis, we believe consideration should be given to how the concentrated possession of it acts to distort competition within the credit referencing market. Requiring the agencies to share this data one with another would immediately act to level the playing field in the credit referencing market. That would bring with it all the benefits that better competition brings to participants in the market and to consumers. It would also ensure that the value of the data in assessing creditworthiness was fully realised, and that lenders had the best available toolset to help them lend responsibly, to the benefit of individual consumers and society as a whole.

## Written evidence submitted by Confused.com

### 1. Introduction and Overview

- 1.1 Confused.com (the trading name of Inspop.com Limited) was the first website in the UK to provide comparison of insurance prices, allowing consumer to aggregate quotes and prices from a range of providers in one place, and select the quote that best suited their requirements. In the last 2 years, we have moved into the comparison of other products areas – including credit cards and personal loans.
- 1.2 As an innovator within the Money price comparison industry, Confused.com welcomes the opportunity to contribute to the Treasury Committee's inquiry into the impact of multiple credit searches on consumer's credit files.
- 1.3 The recession triggered by the financial crisis of 2007, and the corresponding loss of lender's appetites, has led to an increased consumer awareness of credit scores, and what impacts them.

### 2. Credit Cards on Confused.com

- 1.1 With any issuer or comparison site, visitors receive extensive product information, but little or no product guidance. It is therefore left to the individual consumer to assess their own suitability for individual products.
- 1.2 From both a Treating Customer's Fairly and a commercial viewpoint, we aim to ensure that all visitors to the confused.com credit cards homepage, whatever their credit profile, are made aware of their likelihood of acceptance for individual products – allowing them to apply with more confidence.
- 1.3 Historically, this has been done by the only means possible – prominently outlining the main exclusions provided to us by the individual lenders (for example, stipulations in minimum age, minimum income etc). While this allows us to significantly reduce the number of Confused.com customers being declined by issuers for “Lending Policy” decisions, there has never been scope to direct customers, on an individual credit-profile basis, to products for which they are likely to be accepted.
- 1.4 Since the start of 2009, Confused.com has worked with HD Decisions to provide a solution that allows consumers to be matched to products most applicable to them based

on their credit profile, as held at the credit reference agency, Callcredit. This tool was launched in August 2009.

### **3. The credit scoring tool**

3.1 The use of the tool centres on a customer providing us with their consent to share their credit data and 11 key pieces of information, information that allows them to be identified at the credit reference agency, and for a real-time administration search to bring back the consumers individual credit profile. This unique profile is then matched to each Lenders credit decisioning policy using HD Decisions unique understanding of the different lending policies across the market.

3.2 This “administration search” is only visible to the consumer when viewing their own credit file. Searches of this type have no negative impact on the individual’s credit ‘worthiness’ as they cannot be seen by lenders. This is in contrast to “full credit searches”, which when undertaken and viewed by banks, are subsequently used by underwriters as a central tenet in the credit decision process.

3.3 There are three main benefits to the consumer of having access to a tool such as this;

- Significantly reduces the number of applications a consumer makes for credit cards that, from the outset, they have little or no chance of being accepted for.
- Ensures the customer is aware which products are attainable for someone of their credit profile, and therefore doesn’t choose a higher APR product in the belief that they may not be applicable for more competitive products, and wants to avoid potential rejected applications.
- Consumers who already hold credit cards are able use their product recommendations to assess whether they are overpaying on existing debt, potentially saving them money.

3.4 This service is offered to consumers free of charge, regardless of whether or not they choose to apply for the cards for which we have highlighted they are most likely to be accepted for.

### **4. The future**

4.1 Such a facility can have a significant impact on the way people apply for credit cards. For that reason, Confused.com is investigating offering the same pre-search facility to other consumers applying for unsecured lending (i.e. personal loans).

4.2 This concept is currently being implemented by a handful of other financial institutions (both price comparison sites and individual credit card issuers), and it is believed that a number of others will follow our lead, and implement similar tools in the next 18 months. The net result of this will be a greatly reduced number of consumers making multiple failed applications that can have an adverse impact on their credit file, and thus affect the availability and price of future borrowing.

4.3 From a customer perspective, we hope that in the future, the use of tools such as this become ubiquitous – either through market competitive forces, or from regulatory intervention. This will ensure that consumers are treated fairly, and that an individual's credit file is not unfairly impacted by a lack of understanding as to which cards represent their individual credit profile, as opposed to other factors.

*October 2009*

## Written evidence submitted by the Council of Mortgage Lenders (CML)

### Introduction

1. The Council of Mortgage Lenders (CML) welcomes the opportunity to respond to the Inquiry by the Treasury Select Committee, announced on 22 September 2009, into the impact on the credit ratings of consumers shopping around to obtain credit, through personal loans or credit cards, on the most advantageous terms.
2. The CML is the representative trade body for the residential mortgage lending industry. Its 135 members currently hold over 98% of the assets of the UK mortgage market.

### Executive Summary

- Mortgage lenders, in line with other lenders, have routinely been carrying out credit searches on prospective borrowers for many years.
- All checks are carried out in accordance with data protection and other relevant legislation, and also in line with industry rules agreed with the main credit reference agencies.
- The purpose of the checks is to protect the lenders from fraud, and to protect consumers from over-extending themselves by taking on too much debt which they cannot afford to repay.
- There are three types of search: inquiry, application and quotation. Each type of search reveals the same information – the difference lies in the way each search is recorded on the consumer’s file and made visible to others making a search of that file. Inquiry searches are visible only to the consumer. Quotation searches are similarly not visible to other lenders. The rules require an application search to be carried out every time a consumer makes a formal application for credit (as opposed to an inquiry about what rates might be available). A record of that search is then left on the consumer’s file and is visible to other lenders.
- There has been much comment in the press to the effect that multiple credit searches will have a detrimental effect on an individual’s ability to obtain credit and that the manner in which lenders undertake these searches is exacerbating the problem. Multiple searches are just one factor which is taken into account when lenders assess an applicant’s credit-worthiness. If present in conjunction with other high-risk characteristics, multiple search records may have an impact on the applicant’s credit score. It would be very unusual for a mortgage application to be rejected purely on the grounds that that the credit file showed the existence of multiple searches. It is not in lenders’ interests to turn down good business.
- Lenders will base their decisions on the information held by the credit reference agencies. Sometimes, that information may be inaccurate and the lender will, through no fault of its own, make a decision which the applicant considers to be wrong. Given the reliance on data held by credit reference agencies, and the proliferation of credit in recent years, consumers would be well-advised to check that the information about them is accurate and has not been affected by an error made by another lender, or as a result of fraudulent use of the applicant’s identity, of which he or she may be unaware.

### **What are the rules governing the sharing of credit data?**

3. The Data Protection Act 1998 requires that when a consumer's credit file is accessed an audit trail is created. An individual's consent must be obtained before a search can be carried out.

4. Credit data is held by three main credit reference agencies (CRAs) - Experian, Equifax and Call Credit. The Experian data file is known as *CAIS* (Credit Application Information System), the Equifax system as *Insight* and the Call Credit system as *Share*. The three CRAs and participating lenders have agreed rules governing the process by which data is shared and the types of searches which may be undertaken. The basis on which lenders interrogate the data held by the CRAs is governed by the "principles of reciprocity" – which means that lenders receive data back on the same basis that they provide it to the CRA: they can't choose to opt out of providing certain types of data and then expect to see the data provided by other lenders. Lenders pay a fee when carrying out a search. The fee is the same, irrespective of which type of search is being requested.

### **Why do lenders carry out credit searches?**

5. Lenders carry out credit searches so that they can find out more about the credit-worthiness of the consumers who apply to them to borrow money. Each lender's underwriting process will take many factors into account. Where a very significant factor emerges, such as evidence that the consumer has previously defaulted on a mortgage and had possession proceedings taken against him, then the majority of mainstream lenders would not continue with the application. There might be some specialist lenders who would have been prepared to lend in those circumstances but the current market for adverse credit mortgages has been severely affected by the economic situation.

6. There will however be a wide spectrum of other, less extreme, factors which lenders will take into account. Some of these factors will reflect the lenders' current risk appetite and available funding and will therefore vary between individual lenders. The information which lenders obtain from credit searches will be less critical to the decision-making process than other specific factors which are relevant to the current lending policy and criteria, but is used for "fine-tuning" and may make a difference to cases which would otherwise be borderline. Its value can be mathematically proven (the Committee may wish to ask the CRAs for further information on this) but needs to be considered holistically and not taken out of context.

7. When a search is carried out it shows the consumer's recent payment record in respect of credit commitments such as mortgage(s), other secured loans, and unsecured loans such as credit cards and credit obtained for the purpose of purchasing a variety of consumer items. This enables the lender to see how reliable the consumer is in terms of making regular repayments in accordance with a contractual agreement. The vast majority of consumers always pay their contractual amounts every month: for mortgages an estimated 95% pay the full amount on time as per their contract.

8. The search data also lets the lender undertaking the search see whether the consumer has applied recently for credit elsewhere. This information is relevant because there may be several reasons why consumers make multiple applications:

- They may be “shopping around” to get a good deal – as recommended by consumer organisations and the consumer press. The Financial Services Authority explicitly introduced the Key Facts Illustration (KFI) into its regulated mortgage regime with the aim of encouraging consumers to compare products and prices in the interests of finding the most suitable deal.
- They may be having difficulty obtaining credit because of a poor record of previous payments – and may have applied to a number of lenders and been turned down. Clearly this will be of concern and lenders will want to guard against lending to individuals who are highly likely to have difficulty in making regular repayments.
- They may be making multiple applications with fraudulent intent: unless lenders are on their guard, it would be too easy for an individual to obtain numerous loans, credit cards and even mortgages – and then run up significant debts on each card/account, and abscond, with no intention of paying. By being able to see the recent applications made, lenders can judge whether the number and variety are reasonable, together with the applicant’s actual credit record.

9. When lenders see the results of a credit search, they will see that the customer has applied for “secured” or “unsecured” credit. They will not see the name of the lender to which the consumer has applied for credit, nor will they discover the purpose of the loan being applied for, or the amount.

### **Types of Credit Search**

10. There are three types of credit search. Each provides the same information to the lender - the difference between them lies in how the search is recorded on the consumer’s credit file, and who may then see that record.

- **Inquiry searches** – these can be made by an individual, or person acting on an individual’s behalf. They can also be made by lenders, although in practice this type of search is not carried out by lenders as often as the other types. The main reason for this is that, although a record of the fact that the search has been made is recorded on the consumer’s file, it is visible only to the consumer.
- **Application searches** – according to the rules already referred to above, which are agreed between the CRAs and participating lenders, an application search must be carried out when an application is made for credit. In the context of mortgages, this means when a specific application is made to a mortgage lender for a particular product and a particular amount. A record of the fact that the search has been made is then left on the individual consumer’s file and is visible to all other lenders and potential lenders.

- **Quotation searches** – these were introduced in 2002 to deal with the specific issue of mortgage products which were “priced for risk”. In some cases, a consumer might not be in a position to apply for a particular mortgage product and a particular amount before first being aware how much that product will cost. The cost of a product which is “priced for risk” will vary according to the consumer’s risk profile – and it is therefore necessary for the lender to establish that risk profile before being able to quote a price. Before the quotation search was introduced, where a consumer wished to shop around for a product which was priced for risk, lenders needed to run an application search in order to quote the price, even though the consumer had not committed to making a formal application for that particular product. The application was then, in accordance with the rules, recorded on the consumer’s file. In some cases this may have given the impression that multiple applications for mortgages had been made, even though this was not the case. The quotation search gives the lender the information it needs to provide the quotation, but does not leave a record which is visible to other lenders. The record will be visible only to the consumer and to the lender which requested the search. As and when the consumer decides to make a formal application for a particular mortgage product and particular amount, if the lender in question has carried out a quotation search it will, in accordance with the rules, notify the CRA that the status of the search should be amended from “quotation” to “application”. At that point the record of the search will become fully visible to other lenders. Depending on the length of time which has elapsed between the quotation search being obtained and the status of the record being changed to that of an “application” search, the lender may be required to refresh the data submitted. This would not normally be necessary if the period of time was 3 months or less. If it was more than 3 months, and the data needed refreshing, the lender would be required to pay another fee to the CRA.

### **The impact of “multiple footprints” on consumers**

11. Concern has been expressed about the impact on consumers of lenders making multiple searches of their credit files and leaving “footprints” which could then have a detrimental effect on their ability to obtain credit. Some of this concern may be justified, but it needs to be put into context.
12. First, as explained above, there may be very good reasons why a lender would be cautious if it discovered that a consumer had already made numerous applications for credit to other lenders, whether for similar types of credit (mortgages) or other types (unsecured loans, credit cards and so on).
13. Second, the fact that a consumer may have multiple applications recorded on his credit file will be taken into account in many lenders’ scorecards and, indeed, the scorecards which are developed by the CRAs and marketed to lenders on a commercial basis. Information about multiple searches is included in scorecards because experience has shown that it is a reliable predictor of a consumer’s propensity to default on a loan in circumstances where there are also other high-risk characteristics present.

14. However, this point must be emphasised: multiple searches are in themselves only one factor amongst many which are taken into account, and members have advised that it would be extremely unlikely that an applicant would be rejected for a mortgage solely on the grounds that a credit search revealed multiple application search records. Indeed, when asked that specific question, the vast majority of members told us that they had not rejected any applications in the last year solely on the grounds that multiple application searches were recorded on the applicant's file. One lender replied that it had rejected fewer than 0.1% of all applications on this basis.

15. If, however, there are other high-risk characteristics present, the existence of multiple search records is more likely to be taken into account.

16. At any time, an estimated 20-25% of mortgage applications may be rejected by lenders. This will be for variety of reasons, the most likely being that the applicant has insufficient income. In the current economic climate, lenders are also looking to balance their risk in terms of exposure to certain types of loan and types of property. Their internal policy rules will therefore dictate which applications are accepted and which rejected to a greater extent than was the case – say – two years ago. Loan-to-value limits have fallen, for example, so where it was previously possible for first-time buyers to obtain loans of up to 95% LTV, this will have dropped in many cases to 75%, meaning that many first-time buyers will simply not qualify for loans on affordability grounds.

17. Some lenders may have found themselves over-exposed to certain types of property such as new-build flats – and in order to reduce that exposure may have imposed an LTV of 60% on such properties. Once all the relevant current policy rules have been taken into account, the majority of mortgage applicants who fail to achieve the required credit score will be likely to fail to reach it by a substantial margin. For them, the fact that they may in addition have a number of credit applications recorded on their credit file will not tip the balance – they will not be anywhere near eligible for the loan.

18. The existence of multiple credit search records will only affect a very small proportion of applicants who are already “borderline” cases – and for these, it is in theory possible that the existence of multiple checks could tip the balance and cause their application to be rejected. However, it has been put to us by one major lender that this is likely only to affect around 1% of mortgage applicants, if that. It is of course open to such applicants to challenge the fact that their application has been rejected – and they may well seek copies of their credit files to find out whether this has had any bearing on the rejection. If this happens, lenders may at that point manually over-ride the (generally automated) decision-making process and investigate further. In the current climate, however, lending rules have tightened to such an extent that “borderline” cases may well not be accepted, given that there will be other much stronger applicants available.

#### **Accuracy of credit files**

19. Some of the press comment we have seen reveals that the information held on some consumer files is inaccurate. We are aware, for example, of one story, published in the *Times* (8

August 2009) which reported that an individual had been refused a mortgage because her credit file showed that she had allegedly missed a payment on her mobile phone. When she requested a copy of her credit file she realised that a mistake had been made, and took steps to have a notice put on the file correcting the error.

20. The *Times* report illustrated an important point: that consumers who are considering applying for credit would be well-advised to check the accuracy of the information held about them before applying, given that so many lenders will rely on the data held by the CRAs. Consumers should also be aware of the number of occasions on which their credit record will be checked: ten years ago the number of such checks would have been much less frequent. Today, it is all too easy to forget that one may have entered into a new mobile phone contract, or leased some computer equipment, or opened up a new bank account with a credit card facility – and that each of these transactions is likely to have been subject to a credit search. Access to credit file data is not free, but consumers can obtain it by contacting any of the CRAs and paying a fee of £2. The information can also be obtained on-line (though the £2 fee still applies). It may be that the Committee would want to consider recommending the abolition of this fee as it does seem unfair that consumers have to pay for access to their own data.

### **Consumer choice and information**

21. It is important that consumers understand the implications of permitting a credit search to be carried out, and the type of search being undertaken. When making inquiries about possible mortgage arrangements, some consumers want the certainty of knowing that the lender in question will lend the required amount of money at the price quoted. In order to obtain this degree of certainty, the consumer is in effect asking for a “decision in principle” – and in order to give the consumer that degree of certainty, the lender will have to make a decision whether to lend – in which case, according to the rules, it is required to carry out an application search. It must obtain the consumer’s consent before it can do this, and it should also explain to the consumer that an application search will leave a record on the credit file, which will be visible to other lenders. Consumers who do not wish such a record to be left must decide whether they are content to continue their discussions with the lender or lenders concerned without obtaining a firm decision in principle. It is possible that, having been given an illustration by a lender, once a consumer decides to make a formal application, and the lender requests an application credit search, the information returned could cause the application to be rejected. But, as stated above, it is highly unlikely that any rejection would be caused by the existence of multiple application searches.

*October 2009*

## **Written evidence submitted by the UK Cards Association and the British Bankers' Association**

### **Executive Summary**

1. The UK credit industry is committed to responsible lending. Credit searches are an important factor in the assessment of risk, and indeed the identification of attempted fraud. Credit searches in isolation will not generally have a material impact on an individual's credit rating and/or their ability to access credit on favourable terms.
2. Credit searches become increasingly predictive when the applicant already has significant borrowing and/or displays other characteristics analytically proven to be high risk, such as overdue credit commitments.
3. Multiple credit searches in a very short period can be indicative of individuals whose purpose is to commit fraud. Credit searches therefore help the credit industry to counter this challenge to the UK consumer.

### **Background / Context**

4. Lenders are obliged to and committed to lend responsibly. A key factor in this commitment is to make a comprehensive and effective assessment of an applicant's ability to repay the credit sought. As outlined below, a credit search is just one of a number of elements used by lenders to assess credit-worthiness.
5. The Data Protection Act 1998 requires that an audit trail is retained of all instances where an individual's credit file is accessed. Credit reference agencies record credit searches. The audit trail will record how often the customer is applying for credit, including the amount and term of the credit being sought. Lenders are obliged, under the Act, to obtain the consent of the data subject before undertaking a credit search and to notify them how their data will be used.

### **Lenders' use of 'Searches'**

6. To deliver on the industry's strong commitment to lend responsibly, lenders' decision systems are highly sophisticated. Credit decisions, whether at the point of application, or when managing the accounts of existing customers, will analyse a wide range of factors, including data provided on application forms, any information relating to existing accounts held with that organisation and data provided by one or more credit reference agencies.
7. Through analysis over many years, credit searches have consistently shown to be predictive of risk. The extent to which they are predictive, and thus their 'weight' in any given credit decision, will depend on the nature and depth of other available information.

8. It is important to recognise that, as with all other data which feeds into an overall credit decision, credit searches alone are not necessarily predictive. However, if an applicant already has significant borrowing and/or displays other characteristics analytically proven to be high risk, such as overdue credit commitments, then credit searches could become very predictive in the decision whether to extend further credit.
9. Lenders' typically either use credit reference agency scores/data within their own decision systems, or create their own internal scores using all available predictive data. These models will be redeveloped and/or recalibrated on a regular basis, where the significance (i.e. the 'weighting') of various items of data will be re-assessed. An otherwise 'good' applicant would not be materially impacted if they had, for example, 5 or more credit searches in a short time. On the contrary, very large numbers of applications within a very short period could be indicative of possible fraud, or a consumer who appears to be desperate for credit, and is likely to attract further scrutiny through an application referral.

### **Search Types**

10. CRAs and the industry have worked closely to ensure that appropriate search types are used across credit decisions. In those industries where it is very common for consumers to shop around, such as insurance and mortgages, we understand that large numbers of quotation searches are being recorded. It is important to note that quotation searches will only provide the consumer with the price of credit and is not a guarantee that the application will be accepted.

### **Consumer Rights**

11. Consumer rights are well protected in this area:
  - Lenders must only record one credit search for a credit application.
  - The Guide to Credit Scoring requires lenders to advise the applicant of a core reason for decline and whether credit reference agency data contributed to the decision.
  - Consumers can then, as they wish, request their credit file in order to review the content and to check that the information is correct.

### **Conclusions**

12. Searches in isolation have little material impact on credit decisions, but become more predictive when used in conjunction with other data characteristics, particularly those which identify that further borrowing could lead to the consumer becoming over-indebted.
13. The number of customer complaints seen by our Members relating to searches is very small and we have not seen evidence that there is a consumer issue to address.
14. Well established processes already provide robust protections for consumers.

*October 2009*

## Written evidence submitted by The Office of Fair Trading (OFT)

1. The Office of Fair Trading (OFT) is a non-Ministerial government department with responsibility for the licensing and control of businesses that offer credit or credit services to consumers in the UK. As part of its role, the OFT licences, among others, credit reference agencies (CRAs) and businesses that offer unsecured or secured second charge loans to consumers. Licences are issued to businesses which satisfy the OFT that they are “fit” – this means that they have the necessary integrity and competence to provide credit or ancillary credit services without causing harm to consumers. The statutory regime which the OFT operates is set out in the Consumer Credit Act 1974 (the Act) as amended in 2006. Legislative responsibility for the Act and for any changes in the law on consumer credit rests with the Department of Business, Innovation and Skills (BIS).
2. The OFT believes that consumers should be able to shop around for credit without suffering a penalty in terms of an adverse effect on their credit rating. We welcome changes made by the main credit reference agencies in 2004 which allow lenders to undertake ‘quotation searches’ as distinct from ‘application searches’. This facility helps inform responsible lending decisions by enabling lenders to differentiate between consumers who are sensibly shopping around for the best deals as opposed to those who are making multiple applications for credit.
3. Multiple application searches could be indicative of the consumer having some difficulty in obtaining credit or could be a warning that there may be an attempt to fraudulently obtain credit. It is clearly important, therefore, that the ‘footprints’ left by such application searches should be capable of being taken into account by lenders as appropriate, prior to making lending decisions. Consequently, multiple application searches could impact on a borrower’s ability to obtain credit and/or the cost of that credit
4. The OFT has not received consumer complaints about the negative impact of searches on individual credit records as a result of shopping around by consumers. We have been in contact with the Information Commissioner’s Office (ICO), the Financial Ombudsman Service, consumer groups and business representatives on this matter. None of these organisations has provided hard evidence of problems where consumers have been unfairly refused credit or have been offered credit on the basis of an incorrect risk assessment due to footprints resulting from enquiry rather than application searches.
5. Despite this lack of evidence, our awareness of this issue has led us to take further steps to establish whether there is a problem which we need to address. As part of our Financial Services Strategy, published earlier this year, we announced we would carry out a review of consumer credit. An informal consultation on the scope of the review, launched in April 2009, presented us with an opportunity to consider a number of issues in this sector. One of the issues considered during this informal consultation was the flow, interpretation and access to information gained from, and provided to, lenders. Specifically, the review team

sought information in response to the question, 'Credit reference agencies play a role in informing responsible lending decisions. In your view, are there any issues we should consider?'

6. Which? raised the specific 'footprint issue' in its response to our consultation, but as one of many concerns. A number of the 24 respondents raised relatively high-level concerns pertaining to lenders' interactions with CRAs more generally, but the focus of the comments received included:-
  - a need for general improvement in the quality and accuracy of information held by CRAs (17 respondents)
  - mixed views on the desirability or otherwise of greater access to data and data sharing (18 respondents), and
  - smaller lenders in particular not supplying information to CRAs (17 respondents).
7. Our analysis of the responses to the informal consultation indicated that there were more significant issues for the review to consider than CRA/information issues. Consequently, a decision was taken to prioritise our resources towards the area where the impact was considered likely to be most significant: a broad assessment of the high cost credit sector.
8. We are still alive to this issue and the potential for consumers' credit ratings to be unfairly affected by sensible testing of the market – or shopping around – and welcome the inquiry being conducted by the Treasury Select Committee. We are keen to consider the evidence that the Committee collects and stand ready to take necessary action should that evidence show that we need to do so.

*October 2009*

## Written evidence submitted by the Finance and Leasing Association (FLA)

### Introduction

1. The FLA is the leading trade association in the consumer credit, motor and asset finance sectors in the UK, with members including banks, building societies and other finance organisations. FLA members provide over 30% of all consumer credit finance in the UK via credit and store cards, unsecured loans and instalment credit. They also finance over 50% of all new car registrations each year via hire purchase and conditional sale agreements and account for around 85% of all second charge mortgage lending.

2. We welcome the opportunity of providing evidence as part of the Treasury Committee's inquiry into credit searches. FLA members are committed to responsible lending and take into account a broad range of information when assessing credit applications. This helps to ensure, as far as possible, that a customer will be able to meet the repayments and avoid the potential for fraud and bad debt. This evidence provides an overview of responsible lending criteria in the UK and how credit searches are treated as part of the credit scoring and underwriting process.

### Executive Summary

- Search data is one of a number of important factors which lenders take into account in making responsible lending decisions.
- Except where there are a significant number of searches (indicating the potential for over indebtedness or fraud), search data does not adversely affect a customer's credit rating or ability to access credit.
- Lenders are constantly reviewing their credit scoring and underwriting procedures to ensure they are reliable and reflective of customer behaviour.
- Customers are able to obtain a copy of their credit reference file and challenge the data included.
- New statutory requirements for responsible lending support the use of credit searches by consumer credit lenders.

### Responsible Lending

3. FLA members take responsible lending very seriously. This involves not only robustly assessing credit applications at the outset, but also how they manage an account and work with the customer during the life of a loan - together with extending forbearance should the borrower subsequently fall into financial difficulties. Our members also comply with the FLA Lending Code. This sets good practice standards and requires that all loans go through a sound and proper credit assessment. In the majority of cases, this will include a search of information held by a credit reference agency.

4. The recession has resulted in an increased focus on the need for responsible lending across all financial services products. In the consumer credit sector, reform is being specifically influenced via both regulators and the European Commission.

#### **(i) Guidance on Irresponsible Lending**

5. The Office of Fair Trading is currently preparing statutory guidance on what constitutes 'Irresponsible Lending' and what action lenders should take to avoid it. All lenders will need to comply with the guidance if they are to be deemed 'fit' to hold a consumer credit licence and lend in the UK. The guidance will be introduced in January 2010 and sets out the information lenders must take into account when assessing whether a customer would be able to afford a credit product. This includes reference to evidence of income and expenditure; a credit score; a credit reference search and information obtained from the borrower.

#### **(ii) Consumer Credit Directive (CCD)**

6. The CCD will be introduced to the UK in June 2010 and provides a number of new consumer protection measures. The Directive also includes a statutory requirement on lenders to assess a prospective borrower's creditworthiness. The assessment would be made both at the application stage and each time the amount of credit is increased, for example, a credit limit increase on a credit or store card. When looking at creditworthiness, the lender will refer to information obtained from the customer, as well via a credit search. The Directive reflects existing good practice already undertaken in the UK.

### **Credit Scoring and the Underwriting Process**

7. A cornerstone of the underwriting process is credit scoring, which is used by lenders to predict a wide variety of outcomes including whether a credit application is fraudulent or the likelihood of a customer falling into serious arrears in the future. Credit scoring also plays an important role in improving the speed and accuracy of lending decisions and it allows lenders to fully assess and weight all the risks.

8. The statistical analysis that underpins credit scoring helps lenders identify the true predictors of credit risk from among information gathered about applicants. These predictors are in turn 'weighted' with either positive or negative points, which reflect their relative importance in identifying risk. The scorecard essentially describes the relationship between score and risk. The score is usually divided into a number of ranges (typically 10) and the risk is calculated within each band.

9. A comprehensive scorecard will make use of an applicant's characteristics from a variety of sources, while at the same time focussing on those attributes which are highly predictive for the type of lending undertaken. The average number of characteristics is usually around 20. A typical score card used for credit applications would include:

- time at address
- time in employment
- marital status
- age
- income
- past performance on other credit accounts (eg, arrears history, amount of credit outstanding)
- credit reference data (county court judgments, number and value of current active credit accounts, amount of any arrears and details of previous credit enquiries or searches).

10. Scorecards must also be fully compliant with any legislation and must not discriminate on the grounds of race, religion, disability or ethnic origin. Lenders will check their credit scoring methods on a regular basis to make sure that they continue to be fair, unbiased and recognise consumer behaviour. For example, in recent years consumers have become more used to actively shopping around for all services, including credit. This would feed through to reducing the weighting applied to the number of credit searches identified, in the majority of cases.

11. The ‘cut-off’ score is the score below which a lender will not offer credit finance to a customer. This is set by each lender, based on their individual operating and risk model. If an applicant’s score is above the cut-off score and the customer also meets other risk criteria set by the lender, then the credit application will generally be accepted. Where the cut-off score is not met, the application would either be rejected or, in certain cases, may be referred to an experienced underwriter within the lending organisation for a manual assessment. As lenders each have their own lending criteria and scoring systems, applications will be assessed differently by different lenders.

12. In addition to using credit scores in the application process, lenders will also use them as part of the on-going management of a credit account. This reflects lenders’ commitment to responsible lending and it can predict a number of likely outcomes, for example, if the customer might struggle with repayments if their credit limit was increased.

13. The Office of Fair Trading has been very supportive of credit scoring and has recognised the important role it plays in consumer credit lending. The FCA, together with other leading financial services trade associations have published a *Guide to Credit Scoring*, which provides an overview of how it operates in practice.

### **Use of Search Data in Credit Decisions**

14. How lenders weight ‘search’ data in their credit scoring will differ between lending organisations, but overall it does provide a statistically important element in assessing new credit applications. In a typical scorecard development, the rate of default can be up to 50% worse on

the very small number of customers with a **high volume** of searches. Lenders have also found evidence that the data adds value in identifying fraud.

15. A small number of additional searches is unlikely to create a major shift in a lender's overall assessment of a customer, since this also incorporates other important risk factors such as how past credit products have been managed and any county court judgments. Therefore while search data remains an important element of a scorecard (and more so where there is a very high volume of searches), less emphasis is placed on it when the volume of searches is lower.

16. Some lenders have procedures in place where they can manually review and override scores, if they can see that any multiple searches are for the same purchase, for example, a new car. Where this has materially influenced the score and outcome of a credit decision pushing it beneath the cut-off, the lender may review the case on an exception basis.

17. The use of quotation searches arises mainly where lenders offer credit products which are risk based depending on the customer's circumstances, for example in the mortgage and insurance markets. Quotation searches provide the customer with a price for the credit only and the full application process would still need to be completed.

### **Consumer Information**

18. Under the Data Protection Act 1998, a record must be maintained of any access made to a person's credit file and the credit reference agencies record the name of the firm accessing the file, when it took place and why. Only one search is recorded for each credit application. Lenders also use Fair Processing Notices as part of their application procedures, which put customers on notice that a search may be made.

19. In accordance with the requirements in the Lending Code and *Guide to Credit Scoring*, if a customer has their credit application turned down, the lender will tell the customer the main reason why they have not met the lending criteria. The customer can also ask the lender to reconsider their decision based on further evidence provided by the applicant. Attached to this evidence is a copy of a leaflet provided by FLA members to consumers *Your Credit Decision Explained* [http://www.fla.org.uk/filegrab/1Yourcreditexplained\\_19\\_01\\_07.pdf?ref=20](http://www.fla.org.uk/filegrab/1Yourcreditexplained_19_01_07.pdf?ref=20)

20. Consumers also have the right to request a copy of their credit file and to challenge the data held in it.

*October 2009*

## **Written evidence submitted by Moneysupermarket.com**

### **Executive Summary**

Credit providers are preventing UK consumers from shopping around for consumer credit products. As a result of UK practices, consumers don't shop around so may pay more for credit than they need. Consumers who do shop around for credit reduce their chances of being accepted for credit and therefore may end up paying more.

We would like the industry to move to a model whereby customers do not need separate applications and credit searches for every provider, and are penalised for each application. We have seen this work in Germany. Customers should know at pre-application about who will accept them, how much credit they will be offered and at what price for all providers in the market allowing them to make an informed choice.

Transparency can only be good for consumers and enables them to make better choices and get a better deal. It also creates a more competitive market by reducing operational costs for lenders.

### **About moneysupermarket.com**

- moneysupermarket.com is the UK's leading price comparison website. Our position in the market gives us two major strengths – firstly, we have an overview of the entire consumer credit market as we display virtually all credit card, loan and mortgage products on our website. Secondly, we have a unique insight into what consumers are doing as millions of UK consumers visit our site each month and we can track their search and buying habits.
- moneysupermarket.com is listed on the London stock Exchange and is included in the FTSE250. We are based in Flintshire, North Wales where we employ around 460 staff. In 2008 we had over 120m visits to our website - which enables consumers to compare and buy products including mortgages, savings accounts, credit cards, secured and unsecured loans, car insurance, home insurance, utilities and broadband.

### **How we work for consumers**

- Moneysupermarket.com's impartiality enables consumers to search the whole of market for a product that suits their own needs. Where we cannot list a provider, for example when a provider asks not to be listed, we explain this on our site.
- Moneysupermarket puts the power of transparency in the hands of customers by showing the whole market by giving them information and tools to make an informed decision.
- Providers of credit products don't have to pay to be listed on the site.
- Moneysupermarket.com receives payment from providers for every application received through our site. This is a commercial arrangement between moneysupermarket.com and the provider; customers do not pay anything for using moneysupermarket.com.

## Evidence

1. Consumer credit providers advertise the typical rate for loans and credit cards they are quoting rates which are provided to at least 66% of customers are accepted for a product. However, many loan providers and some credit card providers operate a risk based pricing model which is dependent on the risk profile of the customer, which is determined through the consumer's credit rating (as well as other judgemental factors).
2. When a customer shops for a consumer credit product, they have to complete an application with a provider before they will know whether they have been accepted; what interest rate they will pay and what credit line they will receive. All but one UK providers (Nationwide is the exception) will perform a full credit search to ascertain the customer's circumstances and this is recorded on the customer's credit file. The more searches a consumer makes, the more detail is recorded on their credit file.
3. How each individual lender interprets a previous search on a consumer's record is a confidential internal policy. Suffice to say that all Banks will view a previous search as a negative attribute thus undermining their ability to get credit. To what degree it will affect their underwriting decision is unknown as it will vary by lender. However, it is clear that shopping around reduces consumer's ability to shop around.
4. Instead of lenders performing a 'hard' credit search, which is recorded on the credit files, they could perform a 'soft search' which enables the bank to assess a customer's application without leaving a footprint on their files. This system operates effectively in the mortgage market. To our knowledge only one lender, Nationwide, has taken the step to only 'soft search' a consumer requesting a quotation for a loan.
5. Approximately 75-85% of consumers who apply for a loan will be rejected by a provider and 65% of credit card applications will be declined, although this is largely due to the bank's risk appetite, which is heightened due to current economic circumstances. This potentially forces consumers to look for alternative more expensive forms of credit elsewhere.
6. Whilst consumers are aware that credit of all forms has been more difficult to obtain during the last 18 months, we do not believe that their awareness of their credit score and its importance has increased. Conversely in the US, most consumers are aware of their FICO score (equivalent of credit score) and actively look to maintain it due to their understanding of its intrinsic link with their ability to obtain credit in the future.
7. In the small number of cases in the UK where a consumer requests their statutory credit report from one of the 3 credit reference agencies, their understanding is not helped by the format of the report. Originally designed and written for a lender underwriter to interpret, a statutory credit report is a difficult document for a consumer to interpret.
8. moneysupermarket.com launched Smart Search in 2005 as a tool for informing what their credit rating is by asking a series of questions about their credit background. This provides no detailed credit information on the customer. Acceptance rates using this tool increased to 45%. Trials conducted with a main financial provider saw approval rates increase to 55-75%.

## Our Experience in Germany

moneysupermarket.com launched a price comparison website, [www.marktvergleich.de](http://www.marktvergleich.de), in Germany in February 2009. The German market is very different to the UK. Firstly personal loan regulation allows lenders to advertise headline rates without the necessary laws to ensure a volume of applicants receive this rate creating an obscure marketplace. Secondly, the rules around credit searches allows a consumer to have a hard footprint, without it harming their credit profile thus allowing them to shop freely and obtain quotes from many banks without the fear that, with every search, valuable credit score points will be lost.

As a result of these market factors, [www.marktvergleich.de](http://www.marktvergleich.de), employs a model which allows a customer to input their details in one application form which is then sent to many banks. The banks then electronically respond to the applicant instantly with a personalised APR quote giving the applicant the full information and freedom to choose the best APR offered.

BANK / PRODUCT	AMOUNT / MONTH	APR	PAYOUT WAITING TIME
 Citibank	226.05 € Variable Rate	5.21 % Citibank is the market leader in the credit card and consumer credit business in Germany. more ...	2-3 Working Days
 Barclays Bank	226.55 € Variable Rate	5.29 % Barclays Bank has existed for over 300 years and has over 27 million clients worldwide. more ...	2-3 Working Days

## Outcomes

1. As a result of UK practices, consumers don't shop around so may pay more for credit than they need to.
2. Consumers who do shop around for credit reduce their chances of being accepted for credit and therefore may end up paying more.
3. Nothing technically stops lenders from changing their practice of performing hard searches – Nationwide has done so and this is the system which is used in the mortgage market.

4. The industry should be able to tell customers pre-application about who will accept them, how much credit they will offered and at what price for all providers in the market allowing them to make an informed choice. We see this working in Germany.
5. Transparency can only be good for consumers and enables them to make better choices and get a better deal.

### What we would like

1. Increased customer education about credit scores and the impact of multiple applications.
2. Industry move to ‘soft’ searches and indicative acceptance/pricing provided to customers without negative impact on future applications.
3. Industry move towards a single platform for customers to see accurate products and pricing available to them, removing the need for multiple applications and credit searches altogether.

*October 2009*

### Appendices

#### Examples of Loan Rates

Based on a loan of £7,500 taken out over 48 months

Provider	From %	To %	Representative/ Typical APR
Bank A	8.9%	18.9%	8.9%
Bank B	8.7%	10.9%	10.9%
Bank C	11.9%	21.4%	12.4%
Bank D	9.9%	19.9%	9.9%
Bank E	8.7%	24.9%	11.3%

Based on a loan of £7,500 taken out over 48 months

APR	Monthly Payment	Total Paid over Life of Loan	Total Interest Paid over Life of Loan
7.9%	£182.75	£8,771.76	£1,271.76
15.0%	£208.73	£10,019.07	£2,519.07
25.0%	£248.68	£11,936.57	£4,436.57