

# Ken MacDonald & Co

## Lawyers and Estate Agents

### Credit Ratings: A Guide

#### Introduction

Any lender asked to lend money will want to know that the prospective customer will become a good profitable customer and make repayments. They will do this by credit scoring a prospective customer to try and predict their behaviour. This is based on a raft of different data and each lender scores differently.

Although a whole industry has developed in this field the criteria is not published. It is therefore impossible to pinpoint which lender wants what, though many good mortgage brokers have a reasonable guide as to which lenders are pickier.

However if you have a poor credit history there is now very little chance you will get a mortgage. The so called 'sub prime' market, that used to lend to those with poor credit is now effectively dead as much of the so called 'credit crunch' has been blamed on it.

In a complete reversal to practices in the boom years leading up to the almost worldwide collapse of the banking industry, lenders who now have far less money to hand out or a desire to, have become far more selective in who they lend to. They only want the borrowers least likely to miss payments. The credit scoring process is designed to weed out such customers. It aims to predict your future behaviour based on your past. Therefore, ensuring your credit history looks as good as possible and that your lender knows enough positives about you is now essential.

#### Essential tips in order to improve your credit rating

1. Get on the electoral roll

If you are not on you are unlikely to ever get credit. You can go to [www.aboutmyvote.co.uk](http://www.aboutmyvote.co.uk) to register on the electoral roll or check whether you are already registered.

2. Check addresses on your file

Get your credit file and ensure every active account registered (e.g. current account) even if unused, has the correct address. Errors can trigger rejection.

3. Delink from past relationships

Write to credit agencies asking to be delinked from any ex-partner you had joint finances with. This stops their credit history impacting your application.

4. Amend errors

If you think your file is wrong then ask the lender to correct it. If it will not then you should submit a 'notice of correction' explaining why it is unfair and ask that it be placed on your file. You should also lodge a formal complaint with the Financial Ombudsman.

5. Cancel unused cards

Access to too much credit, even unused, is now seen in the present financial climate as bad.

6. Build/ Rebuild your score

Poor scorers should apply for expensive (30% +) credit cards, spend a little cash on them BUT ALWAYS repay in full each month in order to avoid the crippling high interest. This should slowly over time improve your score.

Essential steps of what not to do

1. Do not miss payments/pay late

Set up direct debits to make at least the minimum repayment on credit cards so that you are never late. Though you should always try to pay more on top and clear the debt as quickly as possible.

2. Do not make a lot of applications together

Try and space out applying for anything that adds a foot print to your file, such as and including, car insurance, mobile phones, credit cards, loans etc.

3. Do not do joint finances

It is not marriage or cohabitation but joint financial products, such as bank accounts or mortgages that financially link a couple so avoid this if one party has a poor history.

4. Never apply after rejection

If rejected check for errors on your credit files before applying for anything else. If not, even if you fix an error at a later date, all the footprints arising from your rejected application may hinder your ability to gain credit anyway.

Conclusion

In order to ascertain or check your own credit rating it would be advisable to obtain an online credit report from a provider such as [www.experian.co.uk](http://www.experian.co.uk) or alternatively contact the local Citizens Advice Bureau for assistance.

The material in this guide is for general information only and does not constitute investment, tax legal or any other form of advice. You should not rely on this information to make (or refrain from making) any decisions. Always obtain independent, professional advice for your own particular situation.

This guide should also be read in conjunction with our guides on the buying process, mortgages and mortgage brokers. We also have a selection of information sheets on a variety of topics that will assist you in understanding the legal process.