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Credit where credit's due

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MORTGAGES GETTING YOUR FINANCIAL HISTORY IN ORDER WILL HELP SECURE THE BEST POSSIBLE RATES, WRITES JAYNE ATHERTON

Credit where credit's due

Borrowers already struggling to find a mortgage amid the economic crisis are being hit by a double whammy.

First, there's now a dwindling number of 95 per cent mortgages available and first-time buyers generally need a ten per cent deposit to have a good chance of their mortgage application being accepted.

On top of this, both first-time buyers and remortgagers now need a glowing credit rating to have any chance of picking up a decent deal.

Many remortgagers at the end of their cheap, fixed-rate deals have fallen foul of a damaged credit rating. That leaves them unable to get another reasonably priced loan and forces them to stick with their current lender's standard variable rate, which, depending on the size of the mortgage, can add hundreds of pounds to their monthly payments.

Manage your rating

Sprucing up your credit rating starts with close scrutiny of your personal credit report to see if there are any details likely to spook lenders.

Neil Young, of Young group, a property investor management company, says lenders are now looking for a squeaky clean credit history. 'Understanding and positively managing your credit history is important if you are going to stand the best possible chance of securing the right sort of credit at an affordable price,' he says.

'The first thing to check is that you are registered to vote. Lenders use the electoral register to check you are who you say you are. If you aren't registered or haven't updated your address, then lenders could refuse your application. You also need to check the credit reports of anyone you have a shared bank account with. So if you are divorced or separated, make sure you tell the lenders and credit reference agencies.'

Stay on top of debts

Steve Cox, operations director of Spicerhaart Financial Services, says having some credit is better than none.

'Ironically, it's important to build up your credit rating by borrowing money, usually on a credit card or store card,' he says. 'If you have never borrowed and therefore never proved you can be relied upon to repay a loan, you won't have a credit rating at all.

'But make sure you don't cross the line into debt. If you do take out a large number of credit cards, store cards or other loans, it gives the impression you are in desperate need of additional finances and will put lenders off offering you a mortgage.'

Mortgage lenders like to see borrowers can pay off their debts as it's a good indicator they are likely to be able to manage a mortgage.

Potential mortgage borrowers should aim to pay off the entire amount on their cards as soon as the bill comes in. At the very least, they should always make sure they pay off the minimum amount on time and do not default on any payments.

Plan ahead

Evidence of savings will also help reassure a bank or building society and make you a more attractive borrower, particularly if you can provide a deposit for a mortgage, which lowers the lender's risk.

If you are a remortgager, then you need to plan well ahead and use a broker to help find the best deals. Those borrowers who start looking at the options at least three months before their current deal ends will be able to act more quickly at a time when the borrowing situation is changing day by day.

'Borrowers should review all their finances to see if there is a way to consolidate debts, to make managing them easier, reduce their interest payments or cut down their general outgoings, Cox adds. 'Lenders need to feel certain they are not taking a risk when agreeing to a mortgage or a secured loan.'