How can rising house prices in Scotland affect your credit?

With house prices in Scotland continuing to rise, you might want to consider remortgaging or renovating. Checking your credit file first could ensure application success.

Over the past year, the average house price in Scotland rose by over £6,000 to reach £160,270. These figures were reported by the LSL Property Services house price index and reveal the largest increase since 2010.

Experts predict that homeowners are becoming more willing to put their homes on the market now that prices seem to be on the move in the right direction. This should help to ease the upward pressure on property prices and give a welcome boost to the number of homes available for first time buyers and those looking to move home.

Could buying a property during the current boom impact your credit?

When you make a mortgage application, lenders examine your credit history to determine whether you qualify for one of their products. Your credit score and credit history will play a major role in whether you are accepted and the rate of interest your lender will offer. Once your loan is in place and you start to make payments, this payment information will be reported to a number of credit bureaus where it will have a big influence on your credit rating and your future credit worthiness.

When a mortgage can help

Lenders like to see that you have both instalment and revolving credit to your name. Revolving credit includes lines such as personal loans, credit cards and store cards. A mortgage is a line of instalment credit and is a good thing to have on your credit report. A good mix of credit types managed well can improve your overall score and make you more of an attractive prospect to lenders.

You can check out your credit score before you make a mortgage application using credit report services such as those provided by CreditExpert. These services help you to see your credit history before your lender does and will give you a good indication of whether you will be accepted for a loan.

It is also worth noting that lenders view a mortgage in different ways. On one hand you are managing a large debt very well and making timely payments every month. On the other hand this single substantial debt is taking up a large proportion of your income.

When a mortgage can hurt

On the flip side, starting a mortgage loan can cause a slight dip in your personal credit score for a short time. If you carry on making payments on time this should rectify itself after a few months. Your mortgage could also hurt you if you make late payments or get into arrears.

It is important that you contact your mortgage lender the moment you start getting into difficulty. Most lenders are sympathetic (to a certain degree) to problems with repayments and can talk to you about making temporary adjustments to your mortgage that will help you until you are out of difficulty. The majority would much rather go down this route than going through the process of eviction and repossession.

Can a mortgage impact your debt to credit ratio?

Debt to credit ratio is basically the amount of debt you are using. So if you have a credit card that has a credit limit of £10,000 and you have run up a £4,000 balance, your debt to credit ratio would be a 40% utilisation of the credit you have available.

The good news is that mortgages do not factor in debt to credit ratios and will not have a negative impact on your credit score.

Know the impact of a mortgage on your credit rating before you apply

A mortgage can impact your credit rating before, during and after the mortgage application:

– Make too many applications and this could be a red flag to lenders and make you appear desperate.
– Make late payments on your mortgage and you could damage your credit rating and jeopardise your chances of being approved for credit in the future.
– Even after your mortgage has been paid off and the account closed, any negative behaviour such as late payments or court decrees will stay on file for a further 6 years.

Check your credit report and get access to affordable products with less risk

There are hundreds of mortgage products on the market to choose from and if you are in a position to buy and you have a good credit rating you are in a very privileged position. Not only will lenders offer a wide range of products to you, but you will also get access to the products with the lowest interest rates. Lower interest rates make your debt more affordable on a monthly and long term basis and are less of a risk to your credit rating.