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Understanding credit scores

How to improve yours before applying for a mortgage

Your credit score is one of the most important factors mortgage lenders consider when you apply to borrow money to buy a home. This three-digit number serves as a financial CV, providing a snapshot of your creditworthiness and debt management history. A higher score indicates to lenders that you are a dependable borrower, which can secure more favourable interest rates and a broader range of mortgage options.

Conversely, a lower credit score can serve as a warning sign for lenders, potentially leading to higher interest rates or, in some cases, a rejected application. It indicates a higher risk that you might struggle to meet your repayment commitments. Understanding what influences your credit score is the first step towards controlling your financial future and presenting yourself as a desirable applicant when you are ready to enter the property market.

What is a credit score, and how is it calculated?

In the UK, there is no single universal credit score. Instead, multiple credit reference agencies (CRAs), such as Experian or Equifax, collect information about your financial behaviour to produce their own scores. Although each agency uses a slightly different scale and algorithm, they all assess similar key factors. These include your history of paying bills, the amount of credit you are currently using, the length of your credit history, any new credit accounts you have opened, and the types of credit you hold (e.g., credit cards, loans, mortgages).

Your score is a fluctuating figure that changes over time based on your financial activities. Lenders buy this data from one or more CRAs to help them make informed lending decisions. They will review your score and the detailed credit report that comes

with it. This report lists your credit accounts, payment history, public records like County Court Judgements (CCJs) or bankruptcies, and any financial links to other people, such as a joint mortgage.

Checking your credit report for accuracy

Before you even consider applying for a mortgage, it is vital to check your credit reports with all three main CRAs. You are legally entitled to view your statutory credit report free of charge. Reviewing it allows you to see what potential lenders will see and provides the opportunity to identify any errors or fraudulent activity that could be negatively affecting your score.

Mistakes can occur, from incorrect addresses to accounts that do not belong to you. If you notice any inaccuracies, you should raise a dispute with the relevant credit





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reference agency immediately. They are required to investigate your claim and, if it is upheld, amend your report. A clean, accurate report is the foundation for a strong credit score, so this step should not be ignored.

Practical steps to improve your credit score

Improving your credit score is not an instant process; it requires consistent, positive financial habits over months or even years. One of the most effective steps you can take is to ensure all your bills, from credit card payments to utility bills, are paid on time, every time. Late payments can remain on your report for up to six years and can significantly lower your score. Setting up direct debits can help avoid missing due dates.

Another key aspect to consider is your credit utilisation ratio – the proportion of your available credit that you are using. Lenders prefer to see a ratio below 30%. For example, if you have a credit card with a

£5,000 limit, aim to keep your outstanding balance below £1,500. Paying off existing debts will not only improve this ratio but also demonstrate to lenders that you can manage your finances responsibly.

Building a positive credit history

To be scored, you need a credit history. If you have never borrowed money, lenders cannot assess your reliability. If this applies to you, consider applying for a credit-builder credit card. These cards often have low credit limits and higher interest rates, but by making small, regular purchases and paying the balance in full each month, you can develop a positive payment history.

Registering on the electoral roll at your current address is another straightforward yet effective way to boost your score. Lenders use this information to verify your identity and address, which enhances their confidence in your application. Additionally, avoid making multiple credit applications in a short period, as each one can trigger a 'hard search' on

your credit report, potentially lowering your score temporarily. Limiting new applications in the months before applying for a mortgage is a prudent strategy. ■

Time to improve your score?

Taking the time to understand and actively manage your credit score can greatly influence your mortgage experience. A good score can save you thousands of pounds over the course of your loan by securing better interest rates. For more information or to discuss your specific circumstances, please do not hesitate to contact us.

