GUIDE TO

Credit repair mortgages

YourMortgage in association with peppermoney

Bad credit?

You *can* get a mortgage

Introduction

With tighter legislation on borrowing, securing a mortgage with a high street lender isn't as simple as it used to be and something as small as a blip on your credit report can exclude you from many mortgage deals.

Not everyone will have a perfect credit score. Some people make financial mistakes, while others are forced into credit difficulties by unexpected life events, such as the death of a loved one, divorce or redundancy. Life doesn't always happen in the way we plan.

That doesn't mean you can't get a mortgage. Not all lenders think that a past financial issue makes you an inherently risky borrower. If you've got a less than perfect credit score, the thriving specialist sector can help.

In this guide we delve into the reasons why it's difficult to get a mortgage with high street lenders, and look at what lenders use to make their decisions. You can also find out how to enhance your chances of getting a mortgage and learn how specialist lenders could be your solution to purchasing your new home.

We hope you find it useful.

Paula John, editor

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Advertisements
You will find advertisements throughout the magazine carrying a warning:

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Remember, if at any time you face difficulty in making your mortgage payments, you must contact your lender as soon as possible in order to sort out the problem.

The mortgage market: then and now

Getting a mortgage can be hard, but with a specialist lender it doesn't need to be

Before the financial crisis, mortgages were easier to secure. Borrowers didn't always need a deposit and some were able to self-certify their income. Lenders would lend based on large multiples of a person's income, often without asking for proof. Those with more serious financial problems were able to secure a mortgage.

As a result, there was a rise in the number of people defaulting on their mortgage repayments and repossessions, from the lows of 2004 up until the financial crisis in 2008. The crisis led to a drop in mortgage lending as banks and building societies responded by tightening their criteria for lending and reducing the volume of mortgages they offered.

This changed the face of lending in the UK.

What changed?

Tighter regulations around borrowing were introduced leaving those with a less than perfect financial history struggling to get a mortgage.

Lenders became more selective about who they offered a mortgage to, cherry picking those with the cleanest credit reports. They were interested in lending to people who were in steady jobs, had higher deposits, and didn't need to borrow huge multiples of their income.

Proof of income became compulsory for all borrowers, and affordability was assessed, not just at the time of borrowing, but into the future too. Lenders were made to assess whether borrowers could still afford their mortgage if interest rates were to rise, by looking at both their outgoings and income.

In a mortgage market where lending criteria was tight, there simply wasn't room for borrowers who presented a lending risk. It was nearly impossible for those with a history of financial difficulties or credit problems to get a mortgage with a high street lender.

Closing the gap

The shift in the mortgage market following the financial crisis left a clear gap. Those who had previously experienced poor credit, but could prove they'd be able to make their mortgage repayments, were not able to secure a mortgage through a high street lender.

This gap was filled by specialist lenders, who understood that not all borrowers with a less than perfect credit history should be tarred with the same brush.

There are degrees of financial difficulty and often reasons why problems have occurred. Specialist lenders, like Pepper Money, take a common sense approach to lending. Rather than basing a lending decision on a credit score, they look at each individual's circumstances on its own merits. You will find out more about specialist lenders on page 9.

The decision to lend

Lenders look at a number of factors to determine if they will lend and how much money they will advance.

Deposit

They want to know if you have a deposit and how big it is as a proportion of the property's value (known as the loan-to-value ratio, or LTV). For example, if you have a £20,000 deposit on a £100,000 property, you are taking out an £80,000 mortgage which is 80% LTV. The more you can put down, the lower the risk of you falling into negative equity (where your home is worth less than your mortgage). Lenders reward these lower risk borrowers with cheaper mortgage rates.

Affordability

Lenders also look at your affordability by considering your income and outgoings. This includes credit card or loan commitments, financial dependants and even expenses such as gym memberships or annual holidays. This is to assess what you can afford now and also what you could afford in the future, if rates were to rise.

Credit history

Your track record of repaying credit is another factor that lenders look at. Credit reports are held by credit reference agencies and detail your borrowing on credit cards, loans and other agreements such as mobile phone contracts or utility providers. The lender can see where you have made or missed payments, whether they were paid late or on time and if you have experienced more serious financial problems.

The main credit reference agencies give you a 'credit score' which differs between each agency. A credit score is only an indication. A low score doesn't stop you from getting a mortgage but some lenders do use credit scores to assess mortgage applicants. Others, such as Pepper Money, prefer to look at your wider finances and background.

Credit blips and today's society

Bad credit, complex accounts or a financial blip – it can happen to anyone

It's not difficult to experience a credit blip in today's society. Did you know that a missed mobile phone payment could count as one?

Aspiring borrowers, who are sometimes denied a mortgage from a high street lender because of bad credit, can often easily afford to meet the mortgage they are applying for.

Borrowers with credit blips can be wealthy, young, old, self-employed, male or female. What they have in common, is a credit report that, for whatever reason, can exclude them from getting a mortgage from a high street lender.

In today's mortgage market, it doesn't take much to fall outside of the mortgage criteria of a typical high street lender.

When it comes to the big banks, the process is often automated. This means that if your credit score doesn't meet a certain threshold or your financial history doesn't tick the right boxes your application will automatically be declined.

Although you may have a valid reason for missing a gas bill payment, your application may still get declined because, with many high street lenders, the adviser you see can't overrule the computer.

Luckily not all lenders operate in this way. You'll find out more on page 9.

What is bad credit?

Credit issues range from the very minor to much more serious and they can be current or historical.

Maybe you have experienced financial problems and it caused you to miss a few payments. Perhaps you already have a mortgage but you are behind on your monthly repayments, or you have an outstanding bill that you haven't paid which has led to you being issued with a County Court Judgement.

You may have even entered into a Debt Management Plan, or have an Individual Voluntary Arrangement with your creditors, or were previously forced to declare yourself bankrupt.

All of these can impact your mortgage application and lead to rejection if you go to a lender that applies strict criteria, relies on credit scores and won't look at an individual's personal circumstances.

Who has credit problems?

Anyone can have a low credit score, including those who have no history of repaying credit. Those on low incomes can also be affected, especially if they have large outgoings.

Many people with credit issues have other reasons for their financial blips that are often linked to serious life events, such as death, divorce, illness and redundancy. These don't discriminate based on your level of wealth. They can happen to all of us, no matter how much money we have, how responsibly we behave or how well we look after ourselves.

Thrown off course

No matter how great your salary is, if you have a serious accident that stops you from working for an extended period, you may suffer financial consequences. Insurance can help of course, but if you don't have it, or it isn't adequate, you could face problems paying your bills.

Any savings can be quickly depleted and it's possible you could fall into mortgage arrears, or find yourself unable to pay off your credit card balance.

When you miss payments with creditors, you can sometimes incur a charge or a higher rate of interest and problems can quickly spiral.

Similarly, in the process of a divorce

there can often be problems with managing household finances, where the two parties can't agree on how to split the bills, or they have been advised by their solicitors not to. When there are children involved, it can be expensive for one party to move into a new home and for the family finances to suddenly cover two properties.

If you're suddenly bereaved, it's no surprise that a bill payment gets missed or forgotten or you're unable to work for a period of time. If the main family earner passes away, there can be enormous consequences on the financial position of the surviving spouse.

Redundancy can also be life-changing and can effect family finances. None of these situations are caused by irresponsible borrowing or poor money management. There are many people in a seemingly solid financial position that can be thrown off course by an unexpected life-changing event.

Overcoming difficulties

Having a history of financial difficulty is viewed by many lenders as inherently increasing your risk of missing future repayments.

Some lenders base lending decisions on automated underwriting. That means they are not able to distinguish between a truly risky borrower and someone who has been through a tough time and come out the other side.

Luckily there are lenders that use real people to underwrite mortgage applications, who can take time to look at the bigger picture of someone who has a blip on their credit file. By understanding the background to the missed payment, or County Court Judgement, they can use their knowledge and experience to make an informed decision. ●

Check your credit report

Your credit report is held by a credit reference agency, such as Equifax or Experian, and it details information on your credit commitments.

To see yours you can contact any of the credit reference agencies online or by post. This enables you to see what a lender sees when they run a credit check on you.

They check your report to find out what other borrowing and credit commitments you have and how you are managing them.

They will be able to see details of your credit agreements, for example, if you have a credit card or an overdraft. They can also see whether all of the payments have been made over the last six years and, if not, when you have missed or made late payments.

If you are in arrears on a loan, or haven't paid a phone bill, it will show on your credit report. A potential lender can therefore see exactly how you are coping with your existing debts.

It's important to view your own credit report to correct any mistakes you find.

Get a mortgage with a less than perfect credit history

You can get a mortgage if you don't have a perfect financial past

If you have had credit blips, or more serious financial problems, you may well be aware that it can affect your ability to borrow. You may have already tried to get a mortgage and been rejected by lenders.

This doesn't mean it is impossible to secure a mortgage. There are lenders who understand that life happens and that not all borrowers with previous credit problems are unable to meet their mortgage repayments.

Specialist lenders fill the gap left by high street lenders, and offer mortgages to borrowers who don't fit the mould of a typical high street bank.

What do specialist lenders do?

Specialist lenders don't normally have branches, so you may not always see them on the high street. Some specialist lenders are banks and may offer other services such as savings accounts, current accounts or loans, while others are solely mortgage lenders.

What they have in common is that they are experts in specialist areas of the mortgage market that sit outside of the high street banks. They support people with credit blips, those who are self-employed, people with multiple or complex income streams, landlords and people who fall into more than one of these categories.

By understanding that not all people with a less than perfect credit history should be tarred with the same brush, specialist lenders have filled the gap in the lending market.

They can read a set of limited company accounts to understand the real financial position of a self-employed mortgage borrower in three months' mortgage arrears. By listening to your whole story, they are able to see the full picture and understand your credit report thoroughly.

Will they give me a mortgage?

Every case is different, but there are lenders that offer deals to borrowers with discharged bankruptcies, Individual Voluntary Arrangements and Debt Management Plans, as well as to borrowers that have been through difficult times financially. You may be in arrears on your credit agreements, or have had problems in the past few years but are now fully up to speed.

Each lender has their own criteria and

lending policy, so it is possible you will find one able to offer you a mortgage.

You'll still need a deposit of course, as specialist lenders won't offer you a 100% mortgage. So the more you can put down upfront, the lower the rate you are likely to be able to access. These specialist lenders take time to understand your circumstances and underwrite your mortgage, which means expert professionals not computers, so you may pay a small premium compared to high street lenders.

Time to breathe

When you get onto the ladder, move home or remortgage with a specialist lender, you will have time to repair your finances. Once you look to renew your mortgage, any defaults or other issues may have fallen off your credit report. You could be free to remortgage across the whole market, both high street and specialist.

Specialists like Pepper Money give you time to get on top of your financial circumstances, while still being able to borrow responsibly to buy a home or remortgage.

How to find a specialist lender

Many specialists, such as Pepper Money, offer their mortgages through mortgage advisers because they believe these qualified brokers are best placed to help advise you on where to get the right mortgage. Find out more on page 18.

Advice and support

If you're in financial difficulty or are worried about falling into arrears, a range of support is available. If you're already a mortgage holder, speak to your lender as early as possible. They will work with you to look for solutions or agree a repayment plan until your financial position improves.

The following are just some of the many organisations that can help you get back on track.

www.citizensadvice.org.uk

www.payplan.com

www.mymoneysteps.org

www.nationaldebtline.org

www.debtadvicefoundation.org

www.stepchange.org

Positive lending from Pepper Money

Having money problems shouldn't mean you give up on getting a mortgage, says James Blower, marketing director at Pepper Money

Why should borrowers choose you as their lender?

Many high street lenders have tight criteria and automated systems that can't cope if your circumstances have more to it than a credit score. Pepper Money's lending decisions are all made by skilled underwriters, who will take the time to understand your situation and look for reasons to give you a positive decision.

As a borrower, you can access Pepper Money through mortgage brokers. They can speak to our underwriters to discuss your case, giving you the best chance of getting an offer.

Should borrowers with a history of credit problems visit a broker?

Absolutely. There are many lenders that can consider borrowers with a history of credit problems. They can be particularly understanding if these issues are attributed to a one-off life event, such as divorce or redundancy, or if the borrower has demonstrated an ability and willingness to rehabilitate their finances. Often these lenders are not directly available to borrowers and can only be accessed through a mortgage broker.

So, if you have a history of credit problems, speak to a broker – they will be well equipped to identify the most suitable mortgage available for your circumstances.

If a borrower has already been rejected by a lender, should they give up on getting a mortgage?

Definitely not. Different lenders have very different criteria about what they will and won't accept and so it pays to speak to a broker who can assess all of the available options. For example, some lenders will use a credit score to make their decisions. At Pepper Money, we don't. There are so many reasons why you could fail a credit score, including if you have access to too much credit, have not taken enough credit in the past to establish a robust history, or if you have been in your current job for a short period of time.

This means that it can be very easy to trip up with some lenders. The good news is that there are usually other lenders, like Pepper Money, that will take a different view.

Does a low credit score prevent a borrower from getting a mortgage with Pepper Money?

There is no such thing as a low credit score at Pepper Money, as we don't use credit scores in any aspect of our decision making. All of our lending decisions are made by skilled underwriters.

How do Pepper Money's rates compare to other lenders?

The surprising thing about our rates is how close they are to some high street lenders. Naturally, as our decisions are made by underwriters rather than an automated system, our rates are unlikely to be the cheapest available in the market, but they do offer a viable alternative to high street lenders.

Can borrowers who need a specialist mortgage ever get a deal on the high street again?

Often borrowers use a specialist mortgage as a route back to a slightly cheaper high street mortgage. If your circumstances mean that you require a mortgage from a specialist lender, it's possible these circumstances could change next time you're looking for a mortgage. Perhaps you'll have a longer track record with your current employer or have successfully maintained payments on all of your credit commitments, including your mortgage. These are ways in which you can rehabilitate your credit position. So a specialist mortgage can be a stepping stone, depending on your personal circumstances. ●

About Pepper Money

Pepper Money is part of the Pepper Group, a global financial services business. Since 2015, Pepper Money has been lending in the UK offering a range of residential and buy-to-let mortgages to borrowers who experience difficulties securing a mortgage from a high street bank or building society.

This could be for a number of reasons, from those recently self-employed (including contractors), to those with multiple income sources or credit blips.

Speak to your broker about Pepper Money.

Borrowers Pepper Money can help

Credit blips and rejection from high street lenders shouldn't stop borrowers from getting a mortgage

CASE STUDY: When first-time buyers face unexpected rejection

Emily and Joe Hartshorne were ready to buy their first home and had saved a £30,000 deposit. They found a small two-bed terraced home for £200,000 and needed a mortgage for 85% of the property's value. But when they approached the bank where they held their current account, their application was rejected.

Like many people, they thought the deposit was the most important thing to have in place, but their bank didn't like the fact that their income wasn't guaranteed.

In fact, the Hartshornes fell foul of their bank's lending criteria in a number of ways. Emily, a self-employed web designer with 10 years' experience, only set up on her own 18 months ago. Despite the business doing well, she had just one year's accounts to show the bank, but they needed three.

Joe, a software sales manager, had a structured salary with a large commission element. The bank refused to consider this as it wasn't guaranteed income.

The danger of a payday loan

Joe had another problem. He'd taken a payday loan 18 months ago. This was all paid off but some lenders think that by taking a payday loan the borrower is not able to manage their money very well. Joe had taken the loan because he believed it would be simpler than applying for a credit card.

The Hartshornes went to see a mortgage broker, who quickly found them a two-year fixed rate deal from Pepper Money.

Joe and Emily were able to provide all the documents required and secured a good mortgage deal with Pepper Money to help with the purchase of their home.

CASE STUDY: Getting back on track following redundancy

Nigel White had a mortgage on his three-bed semi-detached home, but experienced some financial problems after being made redundant in 2015. He later found work but had struggled to meet his bills in the meantime.

Before being made redundant, he had a well-paid job and lived comfortably, easily being able to afford his mortgage and bills. However, Nigel didn't have insurance in place because he never thought he'd lose his job.

He started falling into debt a month or two after being made redundant and ended up with a County Court Judgement for £2,000. Later, and after taking debt advice, Nigel decided that in order to manage his financial problems a debt management plan (DMP) was the best option.

He'd been in the plan and making payments successfully for over a year.

Debt consolidation

His financial adviser then suggested that Nigel remortgage up to 75% of his property's value, to release some equity that would allow him to pay off his DMP. Taking this approach meant that his monthly mortgage repayment wouldn't rise by too much, and he would be out of his DMP.

Most lenders don't offer mortgages to people in a DMP, but a handful do, and Nigel's adviser found him a good fixed rate deal with Pepper Money.

Nigel now has a slightly bigger mortgage as he had consolidated his debt, but the monthly mortgage payment is not much more because his fixed term had come to an end, so he'd been paying a higher variable rate. He's also paid off the DMP.

The case studies featured are not based on real people, but are typical of the type of the situations where Pepper Money can lend based on their criteria in effect at the time of publication. Pepper Money reserves the right to change or amend its criteria at any time. This is not intended to promote any product and should not be taken as advice. Consumers who want a mortgage should seek the appropriate advice from a qualified person.

The real deal

There are many myths surrounding credit repair mortgages. We set the record straight

1 My credit score is too low for a mortgage

The main credit reference agencies produce a credit score and the higher that is, the better. However, there is no centralised cut-off point for being able to get a mortgage. Each lender has their own criteria for offering a mortgage, and the credit score makes up only part of that.

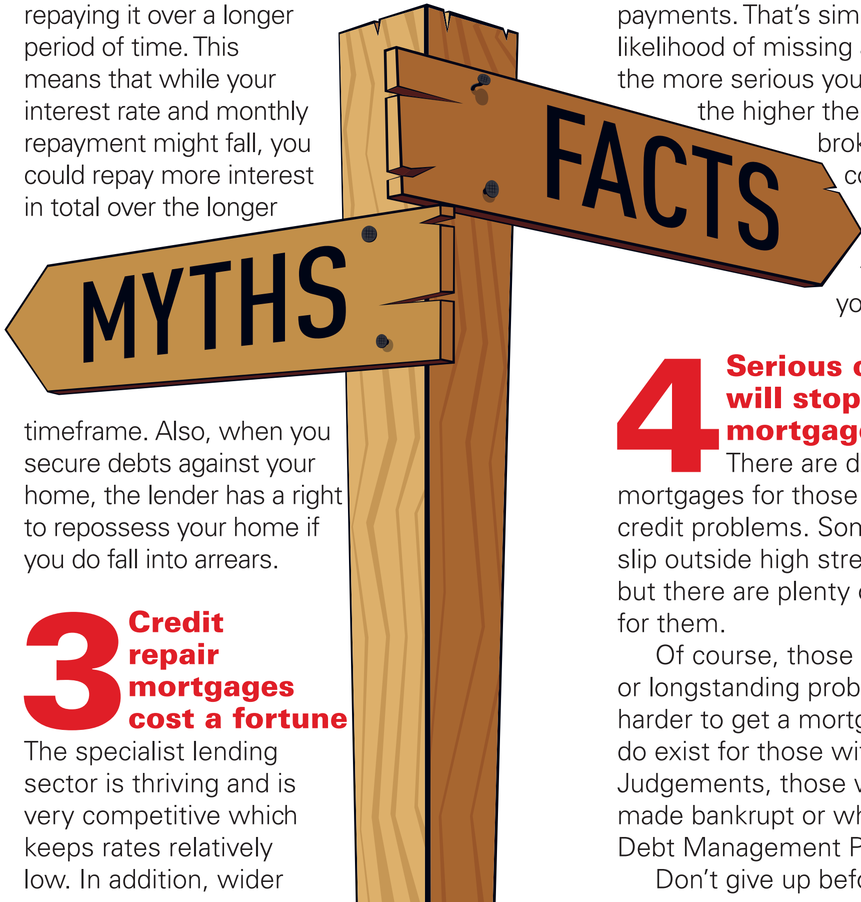
In fact, some don't credit score at all. Instead they look at the bigger picture of your finances, your employment history and your circumstances in order to make a lending decision. A higher score is likely to give you more options, but a lower score definitely doesn't rule you out.

2 You can't roll other debts into your mortgage

Debt consolidation is a valid and popular reason many people extend the amount they borrow as part of their mortgage. Say, for example, you have an outstanding mortgage of £80,000 and unsecured debts, such as credit cards and loans, of £20,000. One option might be to remortgage, extend your borrowing to £100,000 and repay your other debts, leaving you with just the mortgage payment to meet each month. It could be a lower rate of interest too.

There are a number of caveats. You must be able to afford the larger mortgage based on the lender's affordability criteria, plus you must have enough equity in your home to enable you to borrow more, as the lender will only extend your borrowing up to its maximum loan-to-value ratio (LTV).

However, remember that by rolling other debt into a mortgage you will be repaying it over a longer period of time. This means that while your interest rate and monthly repayment might fall, you could repay more interest in total over the longer timeframe. Also, when you secure debts against your home, the lender has a right to repossess your home if you do fall into arrears.



3 Credit repair mortgages cost a fortune

The specialist lending sector is thriving and is very competitive which keeps rates relatively low. In addition, wider interest rates are close to their lowest ever levels. Mortgages for those with a less than perfect credit report are now available from just a little over 2%.

Of course, lenders adjust their pricing based on risk and there is premium for borrowers who have a history of missing payments. That's simply because the likelihood of missing another is higher, so the more serious your credit problem is, the higher the premium. A good broker can assess all the costs, including fees as well as interest rate, to work out the best deal for your circumstances.

4 Serious credit problems will stop you getting a mortgage

There are different types of mortgages for those with a history of credit problems. Some borrowers just slip outside high street lending criteria but there are plenty of specialist options for them.

Of course, those with more serious or longstanding problems will find it harder to get a mortgage. Mortgages do exist for those with County Court Judgements, those who have been made bankrupt or who are currently in a Debt Management Plan.

Don't give up before seeking advice.

5 Ex-flatmates can drag down your credit score

It is only joint accounts that impact your credit rating. If you shared a property with someone, and they are now in serious debt, it won't impact your credit report unless you have joint accounts with them. If you do, ensure you close those accounts down.

Your credit report is about you and your finances. That can involve others if, for example, you have a joint mortgage with your partner, which is why it's important to untangle your finances if you separate. Another person won't affect your credit report just because you lived with them.

6 The dreaded credit blacklist

There is no credit blacklist. This is the biggest myth of all.

Lenders use their own criteria to work out who they will lend to and how much. What looks like an unacceptable risk to one lender may fit squarely within another's lending criteria. Getting rejected by one lender doesn't mean you can't get a mortgage, especially if that lender was a big bank. The specialist lending sector tailors its mortgages and lending criteria to borrowers who sit outside high street lending criteria so your broker will hopefully find the right deal for your needs. ●

Where to get a credit repair mortgage

Consider taking professional mortgage advice if you have complex mortgage needs

Most people initially think of their bank or a building society when they are looking for a mortgage. However, if you've had credit problems in the recent past you may not get past the application stage. Perhaps you have already tried to get a deal with your current account provider but they declined your application after doing a credit check.

The specialist lending market is made up of dozens of lenders and hundreds of mortgage deals suitable for those who can't meet the criteria of high street lenders. They aren't always as easy to find because specialist lenders often don't have branches on the high street.

They are not hiding from borrowers. Far from it. It's just that most specialist lenders don't directly advise on and arrange mortgages with consumers.

They are more focussed on the products they offer and borrowers they help, and distribute their products through the UK's network of professional regulated mortgage brokers.

Benefits of a broker

There are huge benefits to going through an independent mortgage broker if you have credit issues. They are experts in finding the right mortgage for borrowers by searching the whole mortgage market. They have powerful technology that helps them to look for very specific lending criteria. Because credit issues can vary massively from very mild to more serious, they can tailor their search to your needs.

They already know the specialist lenders and work with them daily. They can use their experience and knowledge of the market along with technology to narrow down your best borrowing options.

As well as knowing which lenders are most likely to accept you, they also have inside knowledge of the current service levels of lenders. They know if a lender is turning around applications smoothly, or struggling. If you're trying to buy a home, a potential delay in your mortgage application could be significant.

A helping hand

Mortgage brokers will help you with all of the admin involved in getting a mortgage deal – and there is plenty. From filling in forms to ensuring you provide all the correct documentation, a broker will make sure that your mortgage application is properly packaged to ensure that you have the best chance of an acceptance first time around.

Once the mortgage is offered they will continue to hold your hand through the mortgage process, chase the lender, the estate agent and the solicitor on your behalf if needed and push the deal through to completion.

A good mortgage broker keeps on top of things after the mortgage completes so that you don't have to. This includes analysing interest rates, new mortgage deals and your particular circumstances to ensure you are always on the best deal for your needs.

Face-to-face or over the phone

Mortgage brokers work hard to make sure you can deal with them in whichever way best suits your needs. Be it a face-to-face, or a phone consultation, they'll give you the time and space to ask questions and learn about the different deals available.

They can come to see you in your home or workplace and can also work out of hours to fit in with your preferences wherever they can.

Increasingly brokers have their own websites and will, of course, communicate with you via email and text, although the actual mortgage advice will be done in person or over the phone. After that, they will keep in touch in whichever way suits you best.

Enhance your chances of getting a mortgage

Boost your credit rating with these 10 helpful hints

1 Seek help

The most important thing to remember if you're in debt, or worried that you can't meet your repayments on any borrowing, is to seek help. Contact your lender, who will work with you to arrange a more manageable repayment plan, or seek debt advice from an independent provider – check out the list on page 10.

2 Use a mortgage broker

If you have credit issues, you are likely to fall outside of the typical high street mortgage criteria but specialist lenders could help. Many of these only operate through brokers so it's a good idea to seek independent mortgage advice. Mortgage brokers give you access to specialist lenders, find the right deal for you from across the market and help you fill out the forms required.

3 Don't use a payday lender

Mortgage lenders look for signs that you are managing your money effectively when they look at your bank statements. If you regularly resort to payday lenders, it's a red flag that you are not coping with your existing debt, and may not be able to take on more borrowing in the form of a mortgage.

4 Get your documentation ready

Lenders need to see proof of everything you declare to them, from your ID and address to your commuting costs and gas bills. Make sure you gather all of the relevant documentation you need to make the application process as smooth as possible. One of the most common causes of delays in getting a mortgage is the failure of the applicant to provide the right documents.

5 Check your credit report

Your credit report shows you what the lender sees when they do a credit check and is available for you to read whenever you want. The main credit reference agencies will also give you a 'credit score' to gauge the likelihood of getting a mortgage, but lenders actually use their own credit scoring systems. By checking out your credit report first you can spot any mistakes or flag any issues to your adviser.

6 Start to budget

It's never too late to start to live within a budget and it's particularly important if you plan to take out a mortgage in the near future. By showing a lender that you budget effectively and live within your means you are proving you are responsible with money. Do this in the period preceding your mortgage application, because lenders will look through at least the last three months of your bank statements.

7 Set up direct debts

Missing a payment on a credit card, loan, utility bill or other form of credit will show up on your credit report as a default. That is why it's wise to set up direct debits on your credit card, for example, to cover the minimum repayment. It simply means you won't miss a repayment and of course, you are able to easily repay more than the minimum if you have the money.

8 Don't leave an unpaid bill

If you have an unpaid bill you might think that the damage to your credit report is already done, but it's still important to repay the debt as soon as you can. A lender can see how long an unpaid bill has been left and will treat a late payment that has now been resolved in full differently to an unpaid bill that has simply been left. Also, late payment charges and interest payments means the original debt could spiral.

9 Cut unnecessary spending

A huge part of budgeting effectively is cutting back on your existing outgoings, particularly any unnecessary indulgences. If you're missing bill payments and falling into debt you can't justify expenses that are not essential – and if you want a mortgage it's even more important to cut out those things you can't really afford. It will strengthen your mortgage application and free up funds to repay any outstanding debts.

10 Don't give up on getting a mortgage

Remember that you can get out of debt. You may need help, and it may take time, but it is possible. Don't give up on homeownership either. Start living within a budget, repay the debts you can and visit a mortgage broker for an honest conversation about your mortgage options.

Jargon buster

We explain the key terms and phrases so you will know your DMPs from your IVAs

Adverse credit: Borrowers that fall outside the typical high street lending criteria, often because they have a history of credit difficulties.

Arrears: If you miss or fail to make in full a payment you fall into arrears until you are able to repay the debt including any charges and interest accrued.

Bankruptcy: If your debts become unmanageable you can apply for bankruptcy. There are pros and cons to this. Your debts can be written off, but your assets may be sold to cover them and the bankruptcy will remain on your credit report for six years. Before applying for bankruptcy get independent financial advice. It might not be your best option.

County Court Judgement (CCJ): You could get a CCJ if someone takes court action against you (saying you owe them money) and you don't respond. It means the court has formally decided that you do owe the money. The judgement will state who and how much you owe, how to pay and the payment deadline.

Credit report: A record held by a credit reference agency on an individual or a company. The lender will check your credit report to work out the risk of lending money to you.

Credit reference agency: An organisation that holds and shares reports of credit-related information about individuals to prospective lenders, landlords or employers.

Debt Management Plan (DMP): An agreement between you and your creditors to pay all of your debts. DMPs are often used when either you can only afford to pay creditors a small amount each month or you have debt problems but will be able to make repayments in a few months.

Decision in principle (DIP): The lender gives you an indication of the size of mortgage it may offer, based on your declared income and outgoings. It is subject to checking and is not guaranteed.

Default: Failure to pay a set bill or agreed payment on the date set. For example, if you miss a mortgage or credit card payment you are said to have defaulted.

Electoral roll: A record held by each local authority which shows who is eligible to vote in various types of election. It has a positive impact on credit scores because lenders like to know you have a permanent or semi-permanent address.

Individual Voluntary Arrangement (IVA): A formal, legally-binding agreement with your creditors to pay back part or all of your debt over a period of time.

Repossession: If you do not meet your mortgage repayments your lender has the right to take possession of your property. In practice lenders will, as much as possible, work with borrowers to come up with a repayment plan. A lender will only move to repossess a home as a last resort.

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