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Guide to poor credit history

Poor credit is sometimes referred to by lenders as "Adverse credit". If you have an adverse credit history, you could have entries on your credit report which are seen to be detrimental by some lenders. Below we explain what these different entries could be and what they mean.

Missed payments & arrears:

Arrears are a series of missed or late payments that should have been paid to your creditors at an earlier date. Sometimes people can fall behind on household bills, or loan and credit card payments. It's important to address these as soon as possible and contact your creditors if you feel there will be a problem getting yourself up to date with payments again. A series of late payments could lead to a Default or County Court Judgement.

Defaults:

A Default can occur on your credit file if you break the terms of a credit agreement. Defaults can be issued by creditors if you fail to make payments on any loans you may have or if you stop paying altogether. Default notices only apply to debts regulated by the Consumer Credit Act. Your creditor will send a letter warning you that you have fallen behind with the payments giving you two weeks to catch up, if you can then your account will continue as normal. If not, they will issue the Default asking you to pay the full amount, you can then offer to pay back what you can afford in instalments but the creditor may not agree. A debt can only Default once, however after this your creditor can go ahead and take further action against you to collect the money you owe.

County Court Judgements:

A creditor to whom you owe money to can apply for a County Court Judgement (CCJ) if they believe you will not repay the money that you owe them. If the courts formally decide you owe the money to the creditor then they will issue the judgement against you. You can choose to pay the whole debt off straightaway, pay the debt later or in instalments, dispute the claim or the amount owed, or you can claim against the creditor. If you ignore the CCJ then the creditor could send bailiffs to your home where they could ask for money or goods to repay your CCJ.

Debt Management Plans:

A Debt Management Plan (DMP) is an agreement between you and your creditors that puts all of your debts into one regular payment. They are not legally binding and can be cancelled at any time by your creditors or yourself. If you are in a Debt Management Plan, your debt will still stand but it means that you are able to pay this off more slowly. The debts that are able to be included into a DMP are called non priority debts such as credit cards, loans from the bank, student loans, water bills and overpayments of benefits. They can be changed to suit your situation, for example if your income or living costs change. A DMP is similar to an Individual Voluntary Arrangement, but they differ because an IVA is legally binding.

Individual Voluntary Arrangements:

Individual Voluntary Arrangements are formal, legally binding agreements with you and your creditors where you either pay off all or part of your debts. An IVA must be set up by a qualified person, called an Insolvency Practitioner and they will deal with your creditors throughout the life span of the IVA. Payments should be based on what you can reasonably afford, you will make the agreed payments to the insolvency practitioner who will then distribute this money to the creditors. If you come into any money during the term of your IVA, for example a family inheritance or sale of your property, this could be taken and paid to your creditors. You are able to review your IVA at any time if you have any change of circumstances.

Bankruptcy:

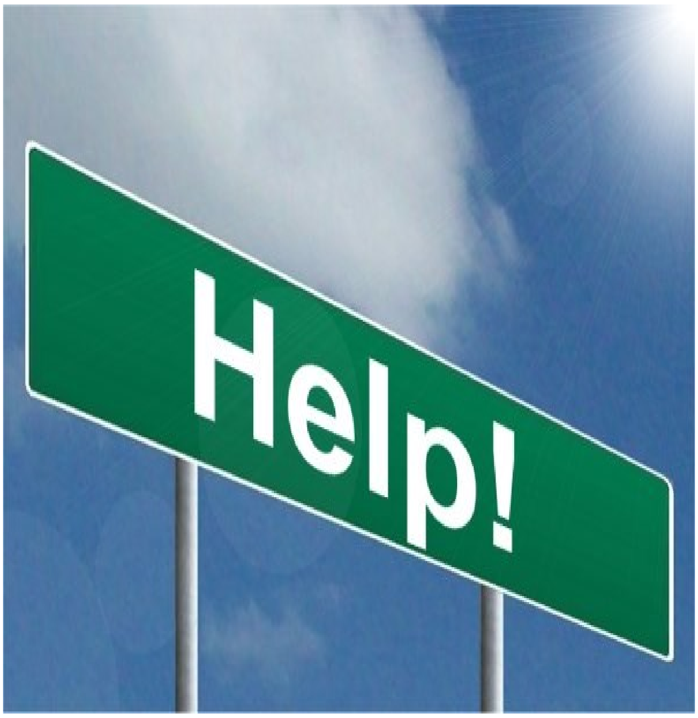
Like an IVA, a bankruptcy is also a formal, legally binding agreement between a person or a business and their creditors. Declaring yourself bankrupt is seen as an extreme last resort for clearing unpaid debts and starting afresh and you should always check to see if there are other ways you can repay your debts before you apply for bankruptcy. Currently it costs £680 to apply to go bankrupt in England and Wales and you can apply for this on the GOV.uk website. When an adjudicator has made a bankruptcy order, your accounts and assets will usually be frozen immediately and the official receiver will take control of your money and property, meaning you have no access to your money. Bankruptcy usually lasts for one year, after this you will be discharged regardless of how much you may still owe, however you may also have to make payments from your income into your bankruptcy for up to three years. Your bankruptcy will appear on the public Insolvency Register until 3 months after your bankruptcy order has been discharged, and it will remain on your credit reference file for 6 years from the date of your bankruptcy order.

Repossession:

Repossession is a process where a lender takes legal ownership of your property as a very last resort. Usually this process starts with mounting arrears on any debt secured on the property such as a mortgage, second charge loan, business loan or a bridging loan. The lender would then begin court action if a repayment plan cannot be agreed. Once a judge has reviewed your case, the court will make a decision about which type of order will be made to the lender: either an outright or a suspended order. An outright possession order will state a date by which you will need to leave your property and if this date has passed, and you have not left, then bailiffs can be instructed to evict you. You could then be evicted 14 days after this notice unless you take action. Once the eviction has happened, the lender will sell your property. If there are surplus funds when the debt is repaid then you will receive these.

Many people believe they could be excluded from the mortgage process due to having a less favourable credit history and to some extent this is the case.

While High Street banks may refuse to lend to applicants that have adverse detail on their credit reports, it is often still possible to obtain a mortgage while having bad credit on your file. However, your options may be limited as some lenders have different criteria, higher interest rates and some will require a larger deposit.



WE CANNOT PROVIDE ANY DEBT MANAGEMENT ADVICE

BUT WE CAN SIGNPOST YOU IN THE RIGHT DIRECTION!

You can contact Citizens Advice Bureau on **0800 144 8848** for free advice on how to deal with your debts.

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