Let's Talk

Police Mutual

Impact on your credit profile

November 2024

Your credit score is based upon information held in your credit report, also known as your credit file. Your credit score will help a lender see how reliable you are at managing your finances and is likely to influence their decision if you are looking for a loan or a credit card. Your personal credit score is built on your credit history. A decent credit score is essential for your financial wellbeing because the higher it is, the more likely you are to be in control of your finances.

Each time lenders want to carry out a credit check (in order to accept or decline your application) they retrieve this information through one of the credit references agencies including Equifax, Experian and TransUnion.

Every time a search is carried out, a 'footprint' is then left on your file. This is a method of confirming that the credit check has taken a place, and a way of letting both you and other lenders know that your file has been looked at.

In terms of the information that credit check references will be looking at on your profile, it will include:

- Your full name and date of birth.
- Your current address and previous addresses you have lived at.
- Any outstanding debt you have and how they are managed.
- County Court Judgements, if you have previously been bankrupt and if you have any defaults.
- Your current account overdraft and balance.
- Any loans (including payday loans), credit card or mortgage accounts that you currently have open and how you manage these accounts.
- Accounts you have closed in the past six years will also be on your file.

What is the duration of a credit search footprint?

There are different lengths of time in which a credit search footprint remains visible on your credit profile as it depends on the type of application you have made:

- 1 year if you have made a credit application
- Up to 2 years for searches made by debt collectors
- 6 years for a funded loan, whether defaulted or paid in full (payday loans fall into this category)

Types of credit search footprints

There are two types of credit search footprints: hard and soft, and each has different implications:

Soft: A soft credit search footprint doesn't have a long term impact on your credit score or profile and involves a credit agency looking at your file or a company checking your ID. The record remains for less than a year. These are usually only visible to yourself.

Hard: Any application for credit will normally result in a hard footprint being left, this could be from a mortgage or loan application. These are visible to third parties and will stay on your file for over a year.

To build a positive credit score you need to show that you have repaid your loan in full and on time.

Credit repayments stay on your profile for up to six years and late repayments stay on your file for up to seven years.

How your credit score influences potential lenders

When you apply for a credit product, such as a credit card or a loan, the first thing the company will do is check out your credit report. This holds all of the important information on you and your financial history, including where you have lived, what credit accounts you have open and whether you have had any issues with repaying debt in the past.

The report itself doesn't necessarily tell them whether to say yes or no – instead they will look for warning signs such as things like defaults and numerous credit applications in a short time listed on it. If they spot any of these there's a chance, they may increase the interest rate on the credit product they are offering to protect themselves or they may reject your credit application.

What affects your credit score?

Late repayments – late repayments won't destroy your credit score but they are a red flag for creditors and so should be avoided if you want to ensure your credit applications have a better chance of being accepted.

Defaults – if you have been consistently late on repayments for 3 to 6 months your creditor may issue a default notice. This usually involves a formal letter, telling you that you need to repay your debts.

Defaults can have a big impact on your credit score and are one of the first things a potential lender will look for. It doesn't matter if it's your mobile phone bill or mortgage – if you defaulted on a credit account there will be a mark on your payment history, and it will stay on your report for 6 years.

Debt solutions – if you have any debt solutions listed on your credit report, they show that you have made the effort to sort your debts but also suggest that you can be a risk to lenders. An IVA (Individual Voluntary Arrangement) or bankruptcy listed on your report will bring your credit score down and will have an effect on your credit score for at least 5 to 6 years. If you've taken on a debt solution such as a DMP (Debt Management Plan) then this will be marked against defaulted accounts, it might not directly impact your score, but it is there for lenders to see. **Just getting debt advice will not affect your credit score.**

Not having credit – not having any credit under your name can impact your score. This is because lenders cannot see if you can responsibly make repayments or not. To improve your score, a history of responsible lending and repayments work in your favour and will boost your credit score.

If you don't have any credit and your score is low, it is a good idea to take on something like a small credit card and pay this off regularly. Many people do this by using their card just to pay for petrol or their weekly food shop, then **clear the debt at the end of the month** to prove they can responsibly manage their money and what they are loaned.

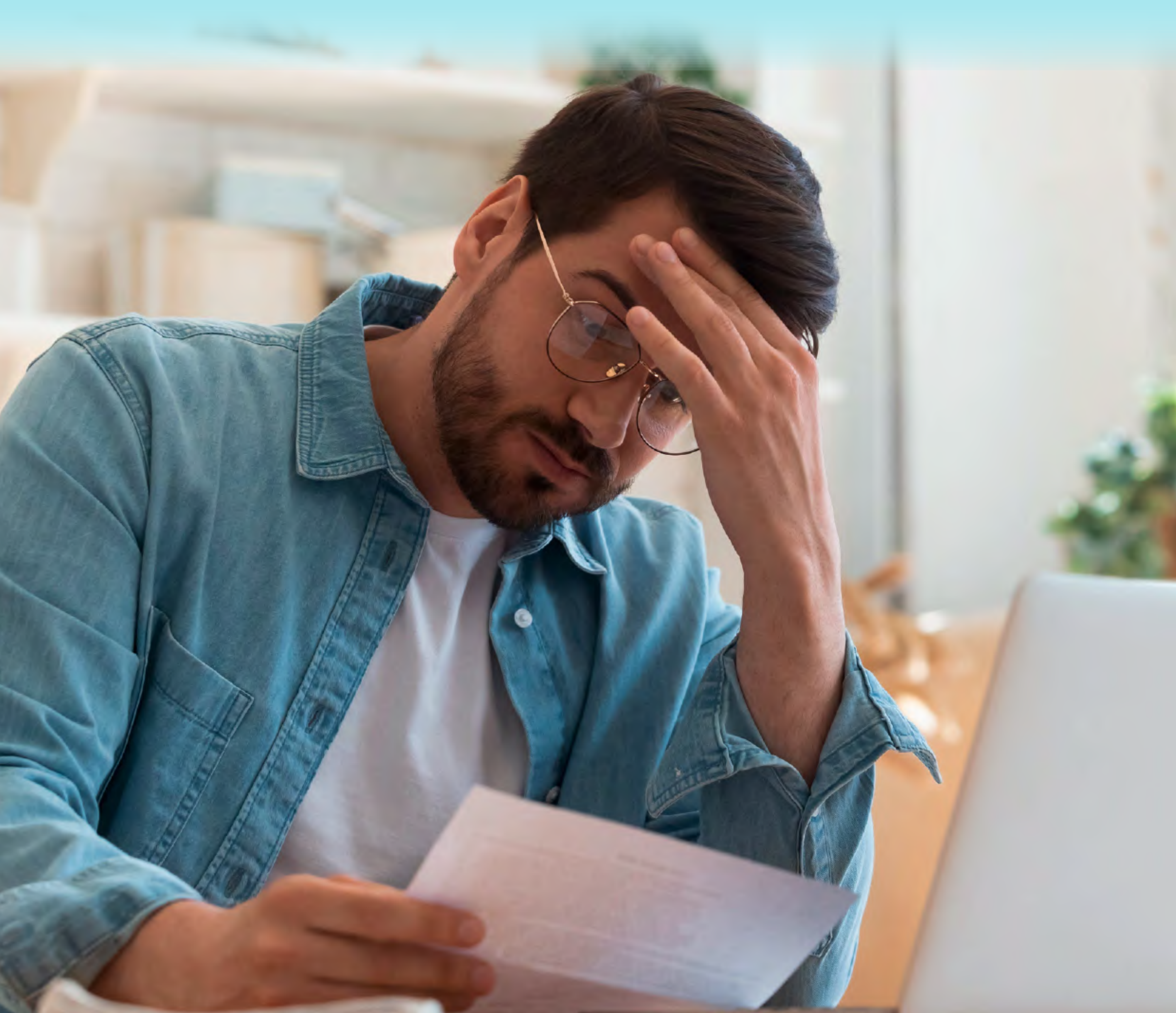
Being registered to vote – the electoral roll is used by credit agencies to confirm your permanent and current address, as well as where you have lived and had credit before – so if you aren't listed this goes against you and your credit score.

It's so easy to register to vote, so if you know you aren't on your local electoral roll at your current address then **register** to get things in order.

Credit applications – the more you apply for credit, the more this pushes your score down. Every credit application leaves a footprint.

Partner's finances – if you have any joint credit with your partner, then their credit report can potentially impact yours. If they apply for credit, your report will also be searched as well, and if they have anything negative on their report it could also start to impact your chances of getting credit.

Length of your credit history – the length of your credit history will impact your score. A longer history with a good track record of repayment will go massively in your favour.



Payday loans and your credit profile

There are many different types of debt which vary greatly. Some debts have extremely high interest rates. Others might be secured against your vehicle or home, whilst others may allow your lenders to take money directly from your wages. It's important to understand which debt types you currently have and understand the differences before you decide on any future debts. Payday and other short-term loans are typically not the first choice when it comes to borrowing. People generally turn to them if they have bad credit history or need a quick finance boost and can't get a loan elsewhere.

A payday loan is a short term, unsecured loan for people who may find themselves with too little money to cover their outgoings due to an unplanned expense. The amount you borrow can range from as little as £50 to well over £1,000. The representative APR of a payday loan is high.

No matter how much money you have borrowed, all payday loans have to be repaid within a very short period. They should never be used as a substitute for long term borrowing, you should only consider using one to address very short term borrowing. The act of applying for credit can have a negative impact. That's because any responsible lender should run a search on your credit history before offering you a loan, and it's normal for this search to have a slight negative impact on your credit score. For most of us provided you then go on to pay off the loan on schedule, that negative impact will be minimal and short-lived. Lenders will be able to see how much you applied for, when and from what source.

Making multiple payday loan applications in a short space of time will almost certainly have a negative effect on your credit score, and is a strong indicator of poor money management or financial difficulties. That means it could harm your chances of being approved for another loan in the future.

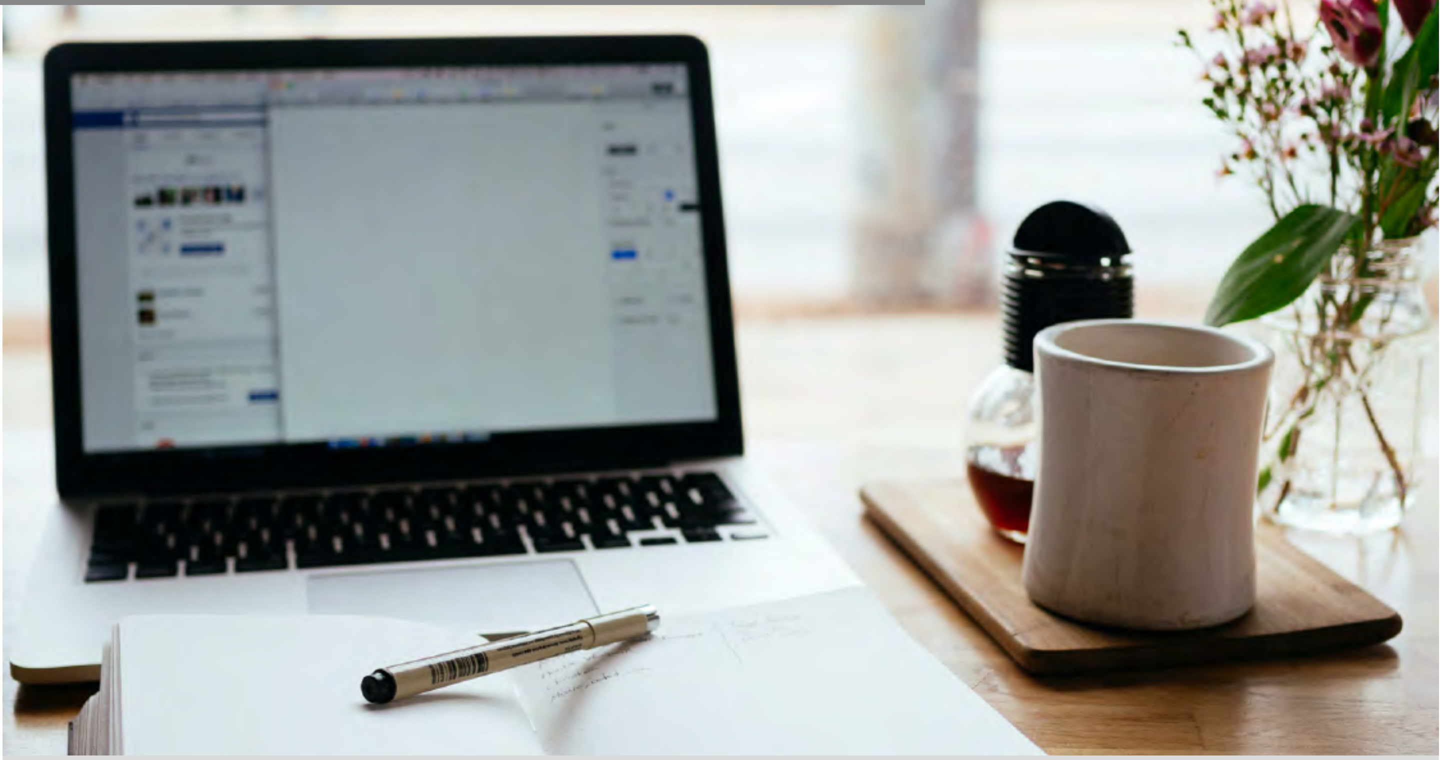
Prospective lenders will also want to see the level of your current borrowings, and how much credit you have access to. If you currently owe money to payday lenders, this is likely to impact what a lender would be willing to offer you.

Missing a repayment on these loans is a stronger indicator of poor money management. It'll be reported back to credit reference agencies and may have a significant, lasting negative impact on your credit score. Unfortunately, it is also possible that some lenders could simply be put off by seeing a payday loan in your credit history, even if it was paid back in full and on schedule. Regular use of payday loans is more likely to be a red flag.

Payday loans may affect whether you will be considered for a mortgage loan by some lenders up to a period of 6 years even if you have faultlessly paid the loan back in full and in time.

If you are struggling, there is lots of support available and we would encourage you to seek help.

Check your credit score regularly



It's a good idea to keep tabs on your credit report and check in regularly. This is to look out for things like identity fraud as well as errors which can occur and impact your score. You can easily check your credit report and it's totally free. There are three credit agencies which hold credit reports on you: Equifax, Experian and TransUnion. It's recommended to check all three reports at least once a year, because they all have an impact.

Here's what to look for:

Check your address is up to date and correct and your report shows at least 6 years worth of previous addresses – credit agencies use the electoral roll and cross examine your address and credit applications to check it's you.

Check that there are no credit products or applications not approved by you – identity theft is a big concern when it comes to loans and credit cards and any products taken out in your name will sit on your report and affect your score. If you see any financial products that you didn't agree to, get in touch with the lender directly and explain your situation.

Check that closed accounts are really closed – if you've moved address or changed energy provider, it's important you check that the credit accounts are closed correctly so there is no chance that payments can be classed as late. Closed accounts in good order can stay on your report for ten years.

Check there are no duplicated credit products – if you notice that a loan has been listed twice or any details are wrong, it's important you rectify this immediately with your lender. Incorrect details can impact your score and it's up to you to ensure everything is right.

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For more information about the products and services available from Police Mutual:

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