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# 5 myths about mortgages and credit scores

Know the nuances of the system

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Property Weekly



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The credit scoring system was introduced six to seven years back in UAE, and almost every citizen is familiar with the concept and what impact it will have on their financial life. The concept of credit score is simple – it just depends on the discipline of monthly installments paid on the credit card and loans. When a prospective homebuyer applies for a mortgage, banks check the credit history of the applicant, which involves the credit score, along with the various important factors like monthly income, debt-to-income ratio, etc. Despite the apparent simplicity, most certainly there are some myths evolved with credit score and mortgages.

### Myth 1: Pre-approval affects the credit score

Fact: Even before finding a dream property, it is recommended to get your mortgage pre-approved, which helps in finding the property easily according to the loan amount approved. But most of the mortgage buyers believe that getting the mortgage pre-approved will have an impact on the credit score, which is definitely a myth. If the pre-approval is rejected then it will not be added to the credit report and will not at all affect the credit score.

### Myth 2: Banks merge all the applicants' credit scores

Fact: Financial institutions allow the addition of co-applicants on a home mortgage. Few banks merge the income of applicants, which will increase the eligibility, but the credit score is not merged anywhere. They consider only the primary applicant's credit score and the loan application is processed based on it. Even though the co-applicant is a spouse or any other nearest family member, the credit score is not merged and considered individually.

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### Myth 3: No credit history means a high credit score

Fact: If a person has no history of loans or credit cards, there won't be any credit score generated at all. It is definitely a myth if you think no history of loans and credit cards will gain you the maximum credit score, which will help you in getting a home mortgage easily. The credit score starts building only when a person gets some loan or credit card. It changes with the monthly installments made – if you're making the payments diligently on time, it will go up. If there is no history of loans/credit cards then there is no history of credit score as well.

### Myth 4: All the financial products will have an equal impact on credit score

Fact: Credit score depends upon each and every financial debt product like credit cards, personal loans, home loans, car loans, life insurance, etc. Making irregular payments for each of the financial products will have a different impact on the credit score. Irregular credit card payments may have a higher impact on the credit score than the mortgage payments. Even though it is important to pay your mortgage installments on time, your credit card installments can be given higher importance.

### Myth 5: Mortgage cancellation after the approval affects the credit score

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Fact: There may be times where the mortgage applicant had to cancel the loan after approval. This raised a myth that if a mortgage loan is canceled after approval it will have a bad impact on the applicant's credit score. A credit score is affected only when irregular payments are made after making use of the loan amount. When an approved mortgage is canceled, financial institutions will not credit the loan amount into the account and will only charge some cancelation fees. Even though it would be added to the applicant's credit report in the history of loans, it will not have any impact on the credit score.

Credit score plays an important role when a financial institution in the UAE processes your loan application. If you are going to start planning to buy a house in the next couple of years then start building your credit score in the meantime by paying your existing credit card bills and loans on time. This can make your loan application process simple and hassle free.

Information courtesy: Lakshmana Swamy, co-founder of Mymoneysouq.com.

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