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Credit Scores: Your Credit Report Card

You may have been out of school for many years, but yet your work is still being graded. Maybe you haven't even realized this fact yet. Nevertheless, most of your financial actions are recorded and "graded" by the credit bureaus. Your credit score, a number somewhere between 300 and 850, becomes an effectual "GPA" in credit terms. Just like colleges and universities check your high school GPA to see if you meet their academic standards, lending institutions around the country will use your credit score to decide whether or not your meet their loan standards. Learning more about how to get an "A" may mean the difference between getting accepted for loans and sitting on the sidelines watching credit pass you by.

Making the Grade in All Your 'Credit Classes'

Just like a GPA is the average of your grades from all your classes, a credit score is an average of your ratings in several different credit facets over the past seven years. These include your history of timely or untimely credit payments, the amount of debt you have compared to your credit limits, the length of your credit history, and how many inquiries have been made on your report. In school, you have to do well in all your classes to get rack up a good GPA; you can't just ace all your English classes and neglect the rest. So it is with your credit score. You have to try hard to score well in all the categories in order to get a nice composite grade.

Why Lenders Like Credit Scores

Why are these credit GPAs so important? Well, lenders want to know what kind of borrower you are going to be. They feel your history of dealing with credit is a good indicator of how you will handle it in the future. For example, lenders are often very leery of loaning money to those who have filed for bankruptcy within the past seven years. They figure if your stiffed your creditors once, you are likely to do it again. Likewise if you have been a 'straight A student' lenders trust that you are going to continue those smart credit habits with their money. This is especially true with mortgage lenders. They are probably the industry that uses credit scores most consistently in their determination of whether to lend to you and what terms to give you. Yes, just like your GPA may have determined what type of higher education institution you were able to get into and whether or not you got any scholarships, mortgage lenders will give you an interest rate and loan terms based on how impressive your credit score is. Indeed, your credit score may even establish which lenders you can deal with. If you have a good credit score, you can work with prime lenders (think Ivy League); if your score is poor you will have to seek funding from a subprime lender (think community college.) Both will give you the funding you need but a subprime loan is usually something you will want to transfer out of eventually!

So your credit is important. In order to protect your score, you need to keep up with your homework (make your payments on time, keep your credit card balances low) and periodically check your score to make sure they are accurate (correct any errors listed on your report.) It may take some work, but the opportunities for future financing will be worth it!