



How and When Your Credit Score is Used

Your credit history and score determine a lot more of your financial choices and opportunities than you might realize. Your credit record is not just used in determining whether or not you are approved for a home loan anymore. Other industries have begun to realize what a valuable tool your credit history is in predicting how responsible of a customer you will be. Before you get denied for a loan, or before you receive a higher interest rate than you wanted, you should understand how and why your credit report is used and how you can protect it.

First, you should understand what a credit score is. Often called a FICO score, it was developed about 60 years ago by a company called Fair Isaac & Co. in order to help businesses figure out which consumers would be likely to repay their debts. Today your score is a calculation of your history of on-time bill paying, how long you have had credit accounts, how much of your available credit lines you are using, the types of credit you have, and how many recent inquiries have been made on your score. You will receive a score somewhere between 300 and 850, with anything above 720 considered excellent credit.

All sorts of businesses that you come in contact with are interested in finding out your credit score. The most obvious is, of course, the mortgage lending industry. Loaning almost anyone money for a home purchase is risky business, and mortgage lenders want to have an accurate scale to determine just how much of a foreclosure risk you will be as a borrower. A credit check is a standard part of a home loan application. When you go through this process, be careful not to have too many lenders pull your credit, as many inquiries can pull your score down.

It is also fairly common these days for even landlords to check your credit history before leasing you an apartment. They also want some assurance that you will pay your rent on time and be a valuable tenant. Based on your past record of paying bills on time, landlords often decide whether or not to rent to you. The same advice applies for the apartment search as for the mortgage search: try to limit the number of times you let your credit report get pulled.

A growing trend is for potential employers to request your credit history. They are perhaps not as interested in how much debt you have or how long you have had credit, but they will use your credit report as a general gauge of your responsibility level. This will help them know whether you will be a valuable member of their employment team or not. You may think it is unfair for employers to automatically link your financial past with your perceived work ethic but the fact is that they do.

You may also notice that when you apply for an insurance policy, the insurer may want to look at your credit report. Insurance companies deal in the business of risk, and they need to know just how much of a risk they are taking on by insuring you. Your insurance premium will likely be based on their findings.

It should be obvious that as important as your credit report is, you should do everything you can to build it up and protect it. Start by pulling a copy of it yourself once a year to make sure everything looks accurate. Also, use caution when discarding documents that contain your personal information. Use a shredder to better avoid identity theft. And of course, it is important to simply practice responsible credit habits, like making timely payments and keeping your credit card balances low. If you do all you can to safeguard your credit score, life will be much



easier when it comes to normal activities like getting a job or an apartment!