



## Credit and Creditworthiness: Q & A

[By Shaileja Mammen]

*What if I need a credit card, car loan, mortgage, or any other loan?*

The lender will first look at your credit record and credit score. Access to information on your credit record is available with the lender. Credit reporting agencies share this information with credit bureaus. Lenders use this information in a credit scoring system.

If it is the first time you are applying for credit, then you are at a disadvantage. You do not have a credit record. You will either not get credit or will be charged higher interest rates until you prove your creditworthiness-unless you can find a co-signer with good credit to lower the rate on your loan.

### **How then do I establish a credit record?**

Acquire a secured credit card when in college, but remember the purpose is to create creditworthiness. As long as you pay the full bill each month, you can avoid high interest rate penalties and improve your credit score.

You can also open savings and checking accounts, both of which are conservative investments for your credit record. This also creates a credit record and shows you can handle money maturely. It is equally vital to ensure that no checks bounce.

Buying your monthly necessities such as gas and groceries on a credit card and then paying off the bills as soon as you get them can be a good strategy towards establishing good credit.

Opening too many lines of credit looks bad on your credit record, even though many credit cards have become very easy to sign up for.

### **What is a credit score?**

Credit monitoring agencies give credit scores. The standard FICO credit score is based on your credit history. Your history is compared with the general habits of the borrowing population to assess similarity with defaulters.

The FICO score measures data like defaults in the past, proportion of credit used to that available, length of period for which credit is used, frequency of credit inquiry, and the customer's mix of credit.

### **What is a good credit score?**

The possible range is between 300 and 800. A credit score higher than 660 is considered good, between 620 and 660 is fair, and below 620 is not acceptable to any lender.

### **Who uses the credit score and how?**

Lenders approve loans based on credit score, credit limit, applicant income, and the proportion of the salary required for repayment. It's a universal score used by mortgage lenders, credit card companies, and investment firms, which buy mortgages from the lenders. The information is available to individuals, rating agencies, community banks, wholesale lenders, and large mortgage bankers.

### **How can I improve my credit record?**

After you having started building credit,

it's important to continuously improve your credit score. This will be of great advantage to you when the time comes to make a large purchase, such as buying your first home. The two biggest factors that enhance your credit score is timely payment of bills and spending less than the available credit limit on your card. Having money in the bank doesn't impact your credit score.

Resist frequent inquiries for loans, as each additional credit report check may lower the credit score earned. The impact of such inquiries depends on the merit of each case.

Hard inquiries-those you initiate for loans-affect your credit score negatively, while soft inquiries, such as free annual credit report checks, credit checks by prospective employers, or inquiries by lenders before selling loans do not affect your credit score.

### **On the Net:**

Why are Credit Reports Important?

[finance.yahoo.com/banking-budgeting/article/100708/why\\_are\\_credit\\_reports\\_important](http://finance.yahoo.com/banking-budgeting/article/100708/why_are_credit_reports_important)

FICO Credit Scores

[finance.yahoo.com/banking-budgeting/article/100635/fico\\_credit\\_scores](http://finance.yahoo.com/banking-budgeting/article/100635/fico_credit_scores)

Seven Steps to Stellar Credit

[finance.yahoo.com/banking-budgeting/article/102055/seven\\_steps\\_to\\_stellar\\_credit](http://finance.yahoo.com/banking-budgeting/article/102055/seven_steps_to_stellar_credit)