Your Credit Rating's Importance To Loans Lenders

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Credit ratings are basically an individual's report card on their ability to responsibly handle debt. Lenders use credit reports and credit rating systems to assess the risk of providing financing to borrowers. Borrowers who have demonstrated a strong and consistent history of responsible borrowing and repayment will get higher loan amounts and better rates and terms than borrowers who have failed to meet debt obligations consistently and fully.

Credit ratings are based on a variety of scoring components that help indicate to the lender what type of borrower a consumer has proven to be in the past. Factors that affect ones credit rating include loan history, loan-to-balance ratios, on-time payments, judgments, income, and more. Lenders are in the business of loaning money. However, before lending to a consumer, the lender wants to assess the risk to reward ratio offered by financing the consumer's loan requirements. The less risk the borrower poses, the more bargaining power he or she has. Borrowers with bad credit are generally at the mercy of the lender as to whether they can obtain financing, and whether it will be offered at reasonable payment terms and interest rates. In most cases, credit impaired customers pay much more.

Unfortunately, many consumers are uneducated as to how credit ratings are calculated. Most consumers begin developing their credit history early in adult life before most are ready for the responsibility. Young people are often unknowledgeable about how significantly their finances are impacted by having good or bad credit. This is not a concern for many until it comes time to purchase a home or auto.

A borrower looking for a mortgage on a new home could see extremely different loan offers depending on whether he has a good or bad credit rating. Borrowers with excellent credit may face lower up front loan costs. They are also likely to get a better interest rate on their loan. Even a half to full point of interest on a conventional mortgage can have a huge financial impact.

Over the life of a mortgage, a borrower could potentially save tens of thousands in interest by getting a half to one percent better rate on the mortgage. Terms are usually more favorable as well. It all related to bargaining power. A borrower with a strong credit rating is empowered to negotiate favorably with lenders because he offers low risk. A borrower with bad credit finds less supply of willing lenders and has lowered bargaining power.

Martin writes for ADM Online who offer loans to UK residents with good or poor credit ratings.

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