

Your credit rating: what is it and why is it important?

Before you think about taking out a loan, you need to get familiar with your credit rating. The amount you will have to pay every month on your loan, and even whether you can get a loan at all, depend on whether or not you have good credit.

Your credit rating is a measure lenders use to rate how big a risk they are taking by lending money to you. Borrowers with good credit ratings can get loans with lower interest rates and lower payments. People with credit ratings that aren't so strong may have a higher interest rate.

What goes into your credit rating?

1. Your credit history – Have you repaid past loans on time? Have you ever declared bankruptcy? Issues like these are a big factor in your credit rating. To get an idea of your credit history, order copies of your credit report from the three national credit bureaus – [Experian](#) (800-997-2493), [Equifax](#) (888-397-3742) and [Trans Union](#) (800-888-4213).
2. Your employment history – Do you change jobs often, or have you had the same job for awhile? Lenders consider people who stay in their jobs for a long time to be less risky borrowers.
3. Your current debt – If your debt is already high compared to your income, creditors might consider it risky to lend you even more.
4. Your collateral – If the equity you have in your home is much larger than the loan you want, then lending to you isn't very risky.
5. Your cash on-hand