

# What Is a Good Credit Score – Understanding Credit Ratings & Ranges

By Sandra Parker

<http://www.moneycrashers.com/good-credit-score-ratings-range/>

When it comes to your credit, it's important to know how you stack up. Do you have good credit? Excellent credit? Poor credit? How can you find out?

In most cases, the easiest way to determine the health of your credit is to look at your credit score, a numerical value that reflects a mathematical analysis of your debt, your payment history, the existence of liens or other judgments, and other statistical data collected by the credit bureaus. In other words, your credit score is the compact, simplified version of your entire credit history, all rolled up into one tidy three-digit number.

## Why Do You Need Good Credit?

The importance of having good credit can't be understated. From helping you get a loan, to qualifying you for a great job, good credit simply makes life easier and less expensive.

In the eyes of lenders, employers, insurance agents, and a host of other people and entities, the state of your credit represents how responsible and even how ethical you are. For example, lenders look at your credit score to determine not only your ability, but your willingness to repay a loan. Insurance companies view an individual with a good credit score as someone who is trustworthy and less likely to commit insurance fraud. Even many employers run a credit check to determine if a candidate is likely to be a responsible employee. (However, it should be noted that employers only have access to a modified version of your credit report which omits some personal information including your account numbers and year of birth.)

Bad credit can prevent you from being able to purchase a home, work in certain industries, and will wind up costing you a bundle in higher interest rates and fees. However, if you understand [what hurts your credit score](#), you can make an effort to fix bad habits and [improve your credit rating](#).

## The Three Major Credit Agencies Experian, Equifax, and TransUnion

There are three major credit agencies that provide consumer credit information (including credit scores) to the majority of interested parties: [Equifax](#), [Experian](#), and [Transunion](#). Each reporting agency collects information about your credit history from a variety of sources, including lenders, landlords, and employers, as well as other sources. These includes public records, current and past loans, your payment history, and other data. They then rate your performance using a proprietary scoring system to come up with a credit score.

Because each agency may access different information and has its own formula for calculating your creditworthiness, it is not uncommon for someone to have three different credit scores.

## **Understanding Credit Scores**

Your credit score is a three-digit number that represents the state of your credit. If you know your score, you can get a sense of how lenders, insurance agencies, and interested employers view your credit:

### **Excellent Credit: Credit Score Above 800**

If your credit score is above 800, you have an exceptionally long credit history that is unmarred by things such as late payments, collections accounts, liens, judgments, or bankruptcies. Not only do you have multiple established lines of credit, but you have or have had experience with several different types of credit, including installment loans and revolving lines of credit. You generally have a stable work history, usually with one company.

Simply stated, you are an A+ borrower in the eyes of all lenders big and small, and will have no trouble securing a loan of your choosing. Be prepared to receive the very best interest rates, repayment terms, and lowest fees available. Insurance companies love people like you because they're confident that you'll pay your premiums on time and pose virtually no risk of insurance fraud. Plus, prospective employers love you because you have proven that personal and financial responsibility are of the utmost importance to you.

### **Very Good Credit: Credit Scores Between 750 and 800**

If your credit score is between 750 and 800, you have a long and distinguished credit history that shows a responsible payment history and the ability to handle multiple types of credit responsibly. As a matter of fact, for the most part, you are regarded in the same standard as borrowers with excellent credit history, with the exception that you may have a higher debt-to-income ratio.

In the eyes of lenders, insurance companies, and employers, you're just as good as anyone with excellent credit and, for the most part, will receive the same red carpet treatment. Ultimately, having very good credit will qualify you for some of the best deals in town.

### **Good Credit: Credit Scores Between 700 and 750**

Having good credit means that you have built a solid credit history by working hard to keep your accounts in good standing – however, there may be a late payment or two somewhere in your past. Things happen sometimes, but they are nothing you can't handle. You might have had a collections account reported, but you've paid it. And you know you have some extra credit card debt, but you've made strides to get it under control.

Generally, lenders will have no issues loaning money to someone like you. Your good credit score will land you competitive interest rates and low origination fees, though certainly not as good as you could have gotten with a few more points on your score. You'll also have no trouble getting an insurance policy for just about any need, but you should expect your premiums to be somewhat higher than for those with excellent or even very good credit. Furthermore, your good credit should not have any negative effect on your ability to get hired.

### **Fair Credit: Credit Scores Between 650 and 700**

Having fair credit means that you've hit a few speed bumps in the past. Late payments, collections accounts, and maybe even an aged public record dot your credit history. Or, perhaps you simply have too much debt.

Regardless of the reason for the less-than-stellar score, you'll have a harder time finding a lender willing to service a loan, especially if the low credit score is a result of slow payments. You'll represent a higher risk of default to a lender and may therefore be required to secure the loan with a down payment or with tangible personal property (otherwise known as "collateral") before a loan offer will be extended.

Furthermore, unsecured revolving credit will be very difficult to come by. Insurance companies will tend to price insurance policies up for people in your credit category due to the potential for nonpayment of premiums or the higher-than-average risk for committing insurance fraud. Also, some jobs may not be available to applicants with fair credit, such as jobs in the financial sector.

Having fair credit means that you have some work to do in order to get yourself back into good financial shape. It is imperative to take steps now to prevent any additional damage to your credit report, and get back on the road to good financial health. By reducing credit card debt, ensuring that you get your bills paid on time every month, and paying off any open collections, your credit score will move enough during the next three to six months to get you back into the realm of a good credit rating.

### **Bad Credit: Credit Scores Between 600 and 650**

Having bad credit is not a pleasant experience. You've had multiple credit issues in the past, most likely involving payment history on one or more accounts. You've also most likely had an account or two in collections, and could have possibly had a bankruptcy filing.

It's going to be extremely difficult to find any lenders willing to lend to you without a significant down payment or collateral to secure the loan against default. Insurance agencies will still underwrite insurance policies for you, but the products will be limited and they are going to cost significantly more than the same products for customers with better scores. You may also have higher car insurance costs.

Some employers – particularly those in financial, defense, chemical, and pharmaceutical industries – will not hire you if you haven't built or maintained solid credit. They may believe you pose an above-average risk of employee theft or

fraud, which could even make it difficult to change positions or get a promotion with your current employer.

Having bad credit means it's time to roll up your sleeves and get real about your current financial situation. Though your current position may be of no fault of your own – thanks to a job loss, illness, or other unforeseen circumstance – it's your responsibility to take the necessary steps to reverse the course you are on. Take a good hard look at where you are in your life and take the necessary steps to reverse the trends that led to your bad score.

### **Very Bad Credit: Credit Scores Below 600**

If you have very bad credit, you are more than likely delinquent on more than one account. You have active collections accounts, and probably have at least one judgment, repossession, or bankruptcy in your file. If you have credit cards, they are maxed out or shut off for nonpayment.

This is as bad as it gets, as this will have many negative effects on your life. Lenders, with the exception of those who specialize in lending to borrowers with bad credit, will not approve you for any loan product, even if you can provide a sizable down payment or collateral, and insurance agencies will likely refuse you based on the risks you pose. Often, employers that check your credit will not hire you, whether there is another viable candidate or not.

Bad credit, no matter how bad it is, is still a temporary condition. Late payments will vanish from your records after 7 years, and public records are purged after 10.

While it can be tough to be patient, know that time is on your side when it comes to dealing with bad credit. Now is the time to start making good financial choices: pay accounts on time, pay off collections accounts, and refrain from taking on additional debt. In just a few years, you can say goodbye to your bad credit rating and hello to a world of financial possibilities.

### **Final Word**

Your credit score is an extremely important part of your overall credit file, but it's only one piece of the pie. Lenders, insurance companies, and some employers will place a lot of weight on the health of your credit when determining your worthiness.

However, other factors also come into the decision-making process. If you have good to excellent credit, make sure that you take the necessary steps to protect it by repaying your loans on time each month, refraining from obtaining more debt than is necessary, and keeping your other bills paid on time to avoid collections accounts.

If you have bad credit, don't despair – snowflake your debt, strive to pay off collections accounts, and start paying all of your accounts on time each month.

What would you suggest to improve a credit score?