Date	26th February 2025
Publication	Mint
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HOW CREDIT SCORES CAN MAKE OR BREAK YOUR CHANCES OF SECURING A LOAN

POWER POINT

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A loan is typically granted based on an applicant's credit score, a three-digit number (300-900) reflecting repayment consistency. A higher score improves loan approval chances, interest rates, and terms. Banks and NBFCs share repayment data with credit bureaus to calculate this score, impacting loan accessibility. So, it is important to understand what a credit score is, how it is decided, and what you can do to improve it.

How credit scores help

A credit score is beneficial not only to people seeking loans but also serves as an important tool for lending companies to ensure a transparent and efficient lending process. Credit score has streamlined the loan approval process, standardising a transparent metric system for evaluating applicants. It helps financial organisations, including banks, to assess borrowers' creditworthiness, enable informed decisions on loan approvals, interest rates and credit limits, and reduce default risks.

Lenders rely heavily on credit scores to determine repayment capacity, impacting loan approval, interest rates, and borrowing costs. A higher score improves approval chances, offers better terms, and speeds up the loan approval process. It also promotes financial discipline and responsible borrowing, and timely repayment, thereby supporting long-term financial well-being.

Factors influencing credit scores

There are several factors to decide how a credit score is calculated. Some of them are:

History of payment: This is decided by the applicant's credit transactions, outstanding amounts, repayment timing and length of credit borrowing (from oldest credit account's opening date).

Credit utilisation: Ratio of the amount of credit used to credit limit. A lower utilisation indicates better credit management.

Number of new or terminated accounts: Creating a new account reduces the average age of your existing credit accounts, which can lower your overall credit score.

Outstanding debt: You must ensure clearing your outstanding debt. When your unpaid dues are reflected on your credit report, it takes a toll on the score. Therefore, pay off outstanding dues even if the amount is small.

Credit mix: Your score may improve if you have a good balance of unsecured (credit cards) and secured (home loans) credit.

How to build a good credit score

A low credit score can be improved by maintaining financial discipline. Additionally, the following steps will help:

Ensure your credit card and loan payments are paid on or before time. This can be done easily by setting reminders. To keep your credit history clean, keep your previous credit cards in good standing. Monitor your spending by keeping an eye on your credit card limit. Do not exceed the limit. Take loans from various credit lines for better interest rates and bigger loan amounts. Choose a lengthier loan repayment period. Before taking out another loan, pay off the current one.

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How to monitor credit scores

With various tools and services now available, monitoring and improving credit scores have become much simpler. Credit bureaus such as CIBIL, Experian, Equifax and CRIF High Mark offer detailed credit reports that allow individuals to check their scores periodically.

Most financial institutions also provide free or subscription-based credit score monitoring services, often with real-time alerts for changes in credit activity.

Additionally, many financial applications, or apps, help manage timely payment of equated monthly instalments (EMIs) and bill amounts, track expenses and optimise credit utilisation. Almost every financial institution in India also provides educational and informative resources to guide borrowers on responsible credit behaviour, ensuring sustained improvements in your credit score over time.

> A good credit score is crucial to secure loans with favourable terms, reduce borrowing costs

Conclusion

Maintaining a good credit score is crucial for securing loans on favourable terms and ensuring financial stability. A high credit score enhances loan eligibility, reduces borrowing costs, and enables better financial planning.

By adopting responsible credit habits such as timely payments, maintaining a healthy credit mix, and monitoring credit utilisation, individuals can effectively manage their credit health and achieve long-term financial goals.

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