

# International service

[Finance](#)



Section/# Credit Rating System: An Analysis As with many aspects of policy or economics, there are positive and negative externalities that exist with regard to the credit rating system that currently is exhibited. This particular analysis will focus upon the issue of credit rating and represent the reader with a discussion of some of the pros and cons of credit rating, how they operate, and the means by which they impact upon society. Furthermore, it will also engage a broader discussion of some of the relevant criticisms that credit agencies and credit ratings represent. Through such an interpretation, it is the hope of this particular student that the reader will gain a more informed understanding and appreciation for the way in which credit rating works and whether or not it is a useful and appreciable tool that should be considered as vital for the continued economic development of the world or whether or not it should be dismissed based upon its inherent shortcomings. Firstly, in seeking to analyze the benefits of credit rating system, it should be noted that this particular system provides the individual with an incentive to pay their bills, and conduct their financial matters in a responsible manner; as a means of receiving the reward of gaining a higher credit score and having potential access to more readily available credit in the future. Furthermore, another tacit benefit that credit rating provides has to do with the level of discernment that it to financial institutions with regard to whether or not a particular loan or investment would be risky and should therefore be shunned. However, beyond the strengths and potential benefits that the credit rating system can provide, it is also inherently prone to key weaknesses and shortcomings. For instance, at the point in time in which an individual loses employment or is unable to pay their bills, due to a medical emergency or <https://assignbuster.com/international-service/>

some other unexpected events, the credit rating of the individual immediately plummets. Naturally, at the point in time in which the individual is most in need of immediate credit, the access to such credit is almost all but nonexistent. Furthermore, if an individual finds themselves with extremely low credit, the interest rates that they must pay will be convinced currently high; denoting the high level of risk that the borrower engenders to the financial institution question (Mattarocci 18). As can relatively be noted, the extraordinarily high interest rates that individuals with low credit scores must pay create something of a reciprocal process through which the ability to pay off a loan and continue to build once credit is greatly reduced. This cyclical nature is one of the key shortcomings that individuals who decry the current credit rating system going to as evidence of the fact that it should be abolished.

Finally, with respect to current criticism that can be made, relating to the financial collapse of 2007/2008, it must be stated that even though the credit system and credit scoring system is contingent upon the fact that even though this particular method of understanding and defining risk might be unfair and potentially unethical, a failure to adhere to such a system was what brought about the financial collapse of 2007/2008; due in part to the fact banks and other financial institutions no longer sought to consider credit scores as indicative of whether or not sub-prime mortgages should be given out in the first place.

#### Work Cited

Mattarocci, G. The independence of credit rating agencies : how business models and regulators interact. Amsterdam: Elsevier/Academic Press, 2014. Print.

<https://assignbuster.com/international-service/>