

Your Credit Report

Many people do not realize the effect of a bad credit rating until it costs them their dream home or perhaps the ability to obtain a healthy financial lifestyle. The following information, including MUST READ TIPS, will play a key role in safeguarding your financial future.

Lenders report your payment history to companies such as Equifax & Trans Union. These companies then use your credit information to document & statistically determine the likelihood of successful loan repayment. This is based on your past and present payment patterns. This information is made available for companies to access once you give your permission. You can also contact either company to view your own personal Credit Report. This way you can ensure the information is accurate.

When mortgage brokers and banks need your credit history, they contact a credit company and pull your Credit Bureau. This is similar to a credit report that you may order yourself, however in addition to your Repayment History, lenders also receive your Beacon Score. Both the Beacon Score and Repayment History are explained below.

Your Beacon Score

Credit companies use the information provided by lenders to determine your level of risk. This risk is given a number called a Beacon Score. The score is usually determined in a computer based system which takes into account the following components:

- 10% - Applications for new credit or credit inquiries
- 10% - Type of credit (credit cards, bank loans, etc.)
- 15% - How long accounts have been opened and established
- 30% - Current debts
- 35% - Late payments, bankruptcies, collections and judgments.

This computer system will then calculate a Beacon Score ranging 300 to 900 with 900 being the highest possible score. Keep in mind that the higher your score, the less risk you are considered and the better interest rates you will receive.

Your Repayment History

In addition to Beacon Scores, there are also individual scores for each of your individual credit accounts. These scores range from 0-9 called your Repayment History. Your Credit Bureau/Report contains letter-number combinations, such as R1 and I2. These combinations tell lenders about your history and the types of credit that you use. The different types of credit are known as Revolving Credit or Installment Credit.

Revolving Credit (R): Revolving accounts vary each month depending on how much you use them. Common examples include credit card, charge cards and department store cards.

Installment Credit (I): Installment accounts have set amounts that have to be repaid each month. In these cases you will have arranged to borrow a specific amount of money up front with an agreement to repay the loan in set amounts over a specified period of time. Examples of installment credit include car loans student loans and mortgages.

If your account is up to date and you have paid the monthly requirement as agreed, there is a 1 recorded for that month. If you miss one payment there will be a 2 showing for that month, meaning you owed two payments for that period. When the account contains a 9 (I9 or R9) the lender will either file for a judgment or sell the account to a collection firm who will continue to pursue the debt.

Tips for Safeguarding your Credit

Check Your Credit -You can contact Equifax and request a copy of your Credit Report by calling 1-800-465-7166 or by visiting www.equifax.ca. It is your responsibility to ensure that your Credit Report is accurate. If you find an error, report it to Equifax immediately.

Stay Informed - Carefully read all credit contracts that you sign, as they are not all the same. For example, some lenders classify payment as “late” the day after it is due, while others allow a grace period of up to 30 days. The small print can make a significant difference on your Credit Report and your Beacon Score.

Set up Automatic Payments - Set up automatic payments through your bank to ensure you do not lose track. It will be one less thing on your “to do” list

Pay Down Debt - Your credit balances should not exceed 70-80% of your available limits. If you are using more than that, it is a warning sign to lenders that you are relying too heavily on your credit lines to meet your obligations. Pay down your debts and if possible pay for more items upfront. Alternatively, if you have equity in your home, you may be able to refinance your mortgage and use that money to reduce your other obligations. Make sure that your balance does not exceed the credit limit; this can cause your Beacon Score to lower.

Be Careful of your Credit Inquiries - Most people think that it’s alright to shop around for the best mortgage rate or to fill out a lot of credit card applications. By doing this, your Beacon Score can be lowered due to the number of inquiries into your credit history. Be very careful who you give permission to pull your credit. Make sure it is absolutely necessary to proceed to the next step.