



Protecting your Reputation: Understand Your Credit Report and Credit Score

What many prospective borrowers don't realize is that the pricing of mortgages and other loans is based in part on their credit-worthiness. Consumers need to be aware of how their credit is evaluated by lenders, and how they can avoid so-called "bruised credit" – people with a lower credit score can find themselves paying a higher interest rate, or even denied access to certain types of loans. By taking a few basic precautions, prospective borrowers can protect their credit report and credit score, and increase their access to better rates and a better choice of mortgage products.

A starting point is understanding the difference between your *credit report* and your *credit score*. A credit report is a detailed history of how consistently you meet your financial obligations, and provides a picture of your financial health based on past behaviour. A credit score is an objective summary that translates personal information from your credit report and other sources into a three-digit number representing overall credit-worthiness.

Both reports are important. When deciding whether or not to grant a mortgage loan, lenders refer to an applicant's credit report and score, along with a range of other factors such as income, employment history, and down payment size. Generally, a credit score uses your past credit history to help predict how you might manage your credit in the future. The credit score used most often by Canadian lenders is the FICO score (developed by the Fair Isaac Co.), which is a number between 300 and 900. The higher your score, the more likely you are to be approved for a mortgage and receive favourable rates.

Several factors are used by the two credit agencies in Canada (Equifax Canada and TransUnion Canada) to calculate credit scores:

- Debt payment history.
- Amounts owed compared to your current credit limits with lenders.
- How often you seek new credit.
- Length of time you have had credit accounts.
- Type of credit, such as car loans, lines of credit, credit cards, finance company loans.
- Recent new credit.

Fortunately, there are a number of steps that consumers can take to keep their credit report and credit score healthy:

- Pay your debts on time and do not ignore unpaid bills.

- Borrow only the amount you can afford to repay.
- Numerous inquiries for your credit report can sometimes worsen your score. If someone is seeking credit card debt, furniture and department store loans then their credit score will be adversely affected. However, multiple inquiries within a 30 day period for car or mortgage loans are ignored.
- Review your credit file regularly to stay informed about the details.

For those with bruised credit, a mortgage agent can coach you on how to improve your credit score.

You can obtain a copy of your credit file free from Equifax (1-800-465-7166) and Trans Union (1-800-663-9980). These free reports will not contain a credit score and it's a good idea to get both reports. You can order more comprehensive reports including your credit score online from these companies, for a fee (around \$26). A link to the Equifax online form is available at www.invis.ca.