

# Let's Talk Credit Scores



## What is a credit score?

A credit score is a 3-digit number, ranging from 300-900, that gives a lender a snapshot of your financial health at a given time. Lenders use information such as your credit score and credit history to determine how much you can borrow and what the terms will be.

## What makes up your score?

- 35% is based on payment history.
- 30% is based on capacity.
- 15% is based on length of credit.
- 10% is based on accumulation of debt in the last 12-18 months (inquiries, opening dates, etc).
- 10% is based on a mix of credit (installment loans help to raise your score but revolving credit and finance companies will cause it to decrease).

## What doesn't affect your score?

- Debt ratio
- Income
- Length and type of residence
- Length and type of employment

## What will hurt your score?

- Missing payments.
- Maxing out your credit cards.
- Closing your credit cards. It lowers your available capacity.
- Shopping for credit excessively.
- Opening up numerous accounts in a short time period.
- Having more revolving loans than installment loans.
- Borrowing from finance companies.

## How to improve your score:

- Pay down your credit cards and try to keep the balance below 75% of your available credit.
- Continue to make payments on time.
- Slow down on opening new accounts – too many inquiries may indicate financial difficulties.
- Ensure information on your report is correct.
- If you're shopping around for a car or mortgage try to do so within two weeks as the inquiries are normally treated as one.

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## What is a credit report?

Your credit report is created when you first borrow money or apply for credit. Companies you've borrowed from, including banks, finance companies, credit unions, and retailers, send specific information related to your financial transactions to credit-reporting agencies.

## What information is on your credit report?

- When you opened an account.
- Whether you make your payments on time.
- Whether you go over your credit limit.
- What your limit or starting balance is.
- If and when you have missed payments.

## What types of accounts will show up?

- Credit accounts and transactions.
- Telecommunications accounts, including your cell phone and internet.
- Public records including bankruptcy, legal judgments and any registered items (ie – liens).
- Debts sent to collection agencies.
- Inquiries from lenders and others who request your credit report.
- Remarks, including consumer statements, fraud alerts and identity verification alerts.

## Understanding your credit report:

Your credit report contains codes that are made up of a letter and a number.

## Letters will represent the type of credit:

**R** - Revolving Credit

**O** - Open Credit

**I** - Installment-based credit

**M** - Mortgage

## The number attached to the code represents whether you are on time with your payments:

- 0 - too new to rate or you've been approved but haven't used the account.
- 1 - you pay within 30 days of billing or pay as agreed.
- 2 - 31-59 days late.
- 3 - 60-89 days late.
- 4 - 90-119 days late.
- 5 - more than 120 days late but not yet rated a 9.
- 7 - you're making regular payments under consumer proposal or credit counseling agency.
- 8 - repossession
- 9 - debt was written off as bad, sent to a collection agency or you've declared bankruptcy.

Items stay on your credit report for varying amounts of time depending on the reporting agency.

## Here is how items are weighted based on time through your credit report:

- 40% of your score is dependent on activity within the past 0-12 months.
- 30% depends on the last 13-24 months.
- 20% depends on the last 25-36 months.
- 10% depends on anything older than 37 months.