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KNOW YOUR SCORE!

One of the most important components of qualifying for mortgage financing is the need for good credit. Most borrowers know they need to be wary of their credit rating and many of them are aware that the banks have their own 'scoring' system. What they don't know however, is how that scoring system works and what they could do to make it better.

Virtually everyone in Canada who has received credit in their lifetime has a credit score. This is most commonly referred to as your 'Beacon Score'. The higher the score, the better it is. The scoring system is not perfect and not all lenders use it the same, but it is safe to say that maintaining a high beacon will increase your financing options in the market and make you more appealing to a lender. A credit bureau is a snapshot in time and is derived through a complex formula that takes a variety of items into consideration. Its purpose is to provide a lender with a prediction as to the credit risk of a client over the next 12 to 24 months. So what can you do to improve the score? Well the first step is to learn more about how the number is derived in the first place.

Beacon and Empirica scores are used by the two major credit bureaus in the country, Equifax and TransUnion. The scores are derived from analyzing data from five different categories to track patterns and predict future activity based on past behaviour. *

Past Payment Performance – 35%

- The fewer late payments, judgments, liens or collections, the better.
- Late payments are time sensitive. More weight is given to recent ones as opposed to those two years or older.

Credit Utilization – 30%

- Low balances on several cards are better than high balances on a few cards.
- It is ideal to keep the balance on credit cards at or below 30% of the available credit and your score will be adversely affected once you exceed 80% of the available credit on those cards.
- Access to too many cards can be deemed detrimental.

Credit History - 15%

- The longer the accounts have been open and in good standing, the better.
- A 'red-flag' for lenders is opening new accounts to pay out old accounts – or 'credit surfing'. This will negatively impact a credit score.

Types of Credit in Use – 10%

- Finance company accounts score lower than traditional banking or retail accounts.
- Deferred payment options funded by finance companies impact the score accordingly. Too many of these 'buy now, pay later' accounts could be interpreted as a potential for future risk.

Inquiries – 10%

- Looking for new credit often can result in having too many inquiries on your bureau over a short period of time. This will be seen as 'Shopping for credit' and can be indicative of higher risk.
- Promotional or administrative inquiries (i.e. credit grantor updates) will show on the report but do not affect the credit score.

(* Source: CIMBL Mortgage Journal / Fall 2004)

Having good credit gives you more options. Take the time to understand yours.