

Why is your Credit Score Important

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Incurring debt is part of life for most people. Understanding how best to handle credit will help you maintain control of your overall financial situation as your credit affects your ability to borrow money.

Your credit report is simply a listing of all your mortgage and consumer debt. In Canada mortgage brokers use two credit bureaus, Trans Union and Equifax and they have a credit file on anyone who has ever borrowed money. Every time you borrow money or make a payment on a loan or credit card, the lender reports the information about that transaction to these two agencies. In addition to credit information, you will also find liens and judgments on your credit report as well as your address and possibly your work history. The accumulation of all of this information is called your credit report.

A credit score is a rating used by a lender to help determine whether you qualify for a particular credit card, loan, or service. Credit scores run from 300 on the low end to 900 points based on information in your credit file the credit reporting company analyzes your information using a complex mathematical model to yield your credit score. CMHC and Genworth have limits of 600 for insured mortgages. If your score is below these numbers you would possibly qualify in the private lending world.

Most credit scores estimate the risk a company incurs by lending you money or providing you with a service - specifically, the likelihood that you'll fail to make payments in the next two to three years. The higher the score, the less risk you represent.

One thing that many people do not know is that you have a legal right to obtain a copy of your credit report. As Mortgage Brokers we can assist you in obtaining a copy of your report, you can do this online, we can go through it with you to verify that all of the information is true and correct. The good news is that your credit report is a working document which means you have the ability over time to repair any damaged credit and increase your credit score. The number one way to increase your score is to pay down your cards to 30% of their limits. Revolving credit like credit cards seems to have a more significant impact on your score than car loans, lines of credit, and so on. By paying down your cards to 30% you are leaving a big gap between what your limit is and what you owe a move that is very favourable to increasing your credit score.

Racking up a large amount and then paying it off in monthly installments can hurt your credit score. If there is a balance at the end of the month, this affects your score – credit formulas don't take into account the fact that you paid it all off the next month. By being more accountable of your spending on a daily or weekly basis through the use of a budget, you can keep those cards below the magic 30% mark.

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Make sure everything is up to date. Old bills that have not been paid can come back to haunt you. When making payments online, do so about a week before the closing date printed on your latest statement to ensure the payment is received on time – it can take up to five business days for a payment to be received. This won't raise your reported limit but it will widen the gap between your limit and your closing balance which should boost your score.

Older credit is better credit. If you stop using those older credit cards, the issuers may stop updating your accounts. As such, they will lose their weight in the credit formula and, therefore, may not be as valuable – even though you have had the card for a long time. Use these cards periodically and then pay them off.

As mortgage brokers, when you are in the process of buying a home we have to only check your credit once. This allows us to use it for the next 30 to 60 days depending on the lender. If you shop by yourself for mortgages and continually have banks pull your credit this will affect it as the more inquiries the more points it will take away from the score.

Mortgage brokers are credit professionals we are trained to read and interpret credit bureaus and how they can affect your ability to get a mortgage. Contact one of our mortgage associates at www.brokersforlife.ca today for an analysis of your current situation.