



## Managing Your Credit Score

Information Provided By: [www.borrowell.com](http://www.borrowell.com)

### **1) What is a credit score?**

A credit score is a number given to anyone who uses credit. The score ranges between 300 and 900, and is determined based on various information throughout your credit report. Financial institutions will use this number to determine current and future interest rates, among other financial offerings. The number as a whole, recaps your willingness to repay loans.

The higher your score between 300 and 900, the better. However, what do these numbers mean? Credit reporting agencies in Canada collect information on consumers like us. They know how often we pay our bills, when we pay our bills, and how long it takes us to pay our bills. They'll share this information with financial institutions and credit providers if you provide them with permission to do so. If you don't know your score, you should check it out.



You can now [get your credit score for free](#) through a partnership between Borrowell and Equifax.

### **2) Why is my credit score important?**

Your credit score is important as it presents your level of risk as a potential customer. Credit scores are mostly used on applications, but can also be used by landlords, insurers, and beyond. It is very important that you are aware of what your credit score is to track your financial well-being, and also to avoid any fraudulent activity.

Most organizations recommend that you review your credit report once each year. Ensuring that you have a good credit score can help you to attain financial goals that you have set, such as: buying a home, buying a new vehicle, or starting a business. The average credit score in Canada is 749.

### **3) Who determines my credit score?**

In Canada, we have two credit reporting agencies – Equifax and TransUnion. They are both independent companies who gather credit information from your financial institutions (e.g. like your payment history), phone and utility companies. They then create complex models using this information and produce credit scores.

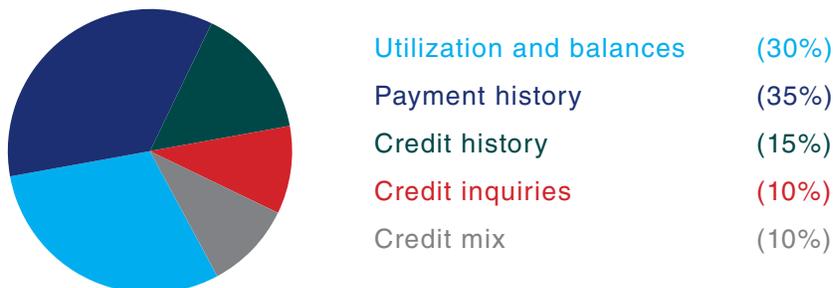
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#### **4) How is my credit score calculated?**

Credit scores are calculated by weighing various factors from your credit report. Those factors include: payment history, amount of credit owing, credit utilization, credit history, new credit applications, and types of credit you hold.

The information is weighted like so:



#### **5) How often does your credit score change/get updated?**

Your credit score changes or is recalculated anytime your credit report is updated. Credit reports can change multiple times per month, or as often as any of your lenders update their accounts. Your credit score will fluctuate for a few reasons, including a new account being added, payments being made, and a past collection or delinquency falling off the report.

When applying for new credit, or anything that may require a credit report to be sent out, your credit score will be calculated alongside the report. This means that your credit score is calculated, and recalculated many times. As you clean up your credit history and this information is mapped out within your credit report, your credit score will improve.

If you get your credit score from [Borrowell](#), they will update your credit score every three months so you can track changes to your score.

#### **6) What is a good credit score?**

Credit scores can fall anywhere between 300 and 900. Every lender has its own criteria, but a good credit score could be anything above 650-680. The higher your score is, the less lenders see you as a risk. However, each financial institution has their own rankings for high and low risk borrowers.

Below is an interpretation from Equifax on its Equifax Risk Score 2.0 credit score. Remember, there are different credit bureaus and different scores. Every lender will also have its own criteria, and all lenders will look at information in addition to the credit score to make a decision.

<b>Score</b>	<b>Range Interpretation</b>
300-499	Very serious issues, difficult to get any credit
500-574	High risk customer, may be required to provide securitization.
575-649	Above average risk profile. May be granted credit with high interest or low limits
650-749	Fairly safe credit risk for most institutions
750-900	Safe credit risk, generally approved easily

## **7) What can I do to improve my credit score?**

31% of Canadians are unsure of how to achieve a good credit score, but it's not as overwhelming as one may think. If you are looking to improve your credit score, there are many steps you can take to do so:

-  **1)** Pay all of your bills on time to avoid penalties and delinquencies
-  **2)** Check and review your credit report annually to ensure there are no errors
-  **3)** Pay down any “revolving” debts to reduce credit usage (i.e. credit cards, lines of credit)
-  **4)** Make more than the minimum payment on your credit card bills to reduce the balance faster
-  **5)** Ask your financial institution for a higher credit limit to reduce utilization, as long as you can be disciplined about not using the extra credit available to you
-  **6)** Be cautious when seeking additional credit, and taking on any new credit
-  **7)** Ensure variety among the types of credit you hold

## **8) How important is paying my bills on time?**

Paying your bills on time is extremely important. As we mentioned in “how your credit score is calculated” above, making payments on time, or your payment history, accounts for 35% of your credit score.

Late payments are generally based on the following three measures: how recent they are, how severe they are, and how frequently you are late.

The typical timeline goes as follows: 30 days, 60 days, 90 days, 120 days, 150 days, and then it would typically be written off as a loss. Even one late payment could affect your credit score. Not only could it affect your credit score, it could also affect your future interest rates, and late fees.

Control on-time payments by setting up automatic payments or reminders, and by making a budget that includes all bills owing and their due dates. Don't forget about phone and utility bills, because those are important too!

## **9) How important is credit utilization to your credit score?**

Credit utilization makes up 30% of your credit score, so it's almost as important as your payment history. The lower your credit utilization, the better.

You can figure out your credit utilization by adding up the balances on your credit cards and lines of credit, and then dividing by your total credit limit. If the balances you owe total \$4,000 and the total of all the credit you have available to you is \$10,000, then your credit utilization is 40%.

Equifax recommends that you keep your credit utilization below 75%. Some studies have shown a pretty strong relationship between low credit utilization and high credit scores, with the highest credit scores having 20-30% utilization. One way to control your credit utilization is by carrying small balances that you are able to pay off every month. This will demonstrate your financial responsibility, and in turn, boost or maintain your credit score.

### **10) How important is the length/age of your credit profile?**

Credit history makes up 15% of your credit score. The 15% is based on how long your accounts have been open, and whether they are active. To create a solid history, credit bureaus would prefer a minimum of six months credit history, and some lenders would require 12 months or more.

Therefore, before you close a credit account, research whether or not this will affect your credit history. If you've had one card for 10 years, and another for 5, your best option would be to close the 5 year account as it holds less credit history. Creating that credit history takes time.

### **11) How do credit inquiries affect your credit score?**

Credit inquiries account for 10% of your overall score. Credit agencies will review all of your requests within the past six to 12 months. These requests can be seen as soft or hard inquiries. A soft inquiry, such as when you check your score yourself, or sometimes when you get a quote online, will not affect your credit score.

A hard inquiry, like applying for a credit card or a mortgage, will have some effect. Typically, a couple of hard inquiries will not raise any flags. It's only if you've been applying for a lot of credit in a short period of time that lenders may be concerned. If you're rate shopping for a mortgage or car loan, don't worry – credit bureaus will combine multiple inquiries on car loans and mortgages in a set period of time because they know you're not likely to get 5 mortgages at once!

### **12) How does the type of credit you hold affect your credit score?**

Different types of credit carry weight in different ways. For example, paying a mortgage means that your amount owed decreases monthly, whereas paying a credit card is seen as a higher-risk loan by credit bureaus because the number can increase or decrease daily.



Having diversity within your credit rating is 10% of your overall score. In comparison to other factors, it's not as high – but every percentage counts.

Different types of credit include student loans, car loans, mortgages, home equity lines of credit, unsecured lines of credit, credit cards and utility bills.

It's not recommended you open new accounts to create diversity unless you are planning to use them. Generally, if you stay responsible with your money, your credit score will be good.

### **13) How can I see what information is on my credit report?**

You can see what information is on your credit report by requesting it from one of the two credit bureaus operating in Canada – Equifax and Transunion. You can get a free copy mailed to you, or purchase the report online.

To get your report for free, you can call Equifax at 1-800-465-7166. Transunion offers the ability to order your free report through an online form. In both cases, the free report comes in the mail. Note that the free version of the credit report you get from the bureaus does NOT include your credit score. It'll only list the information that is in your report.

#### **14) How long does information stay on my credit report?**

Depending where in Canada you live, this information can stay on your profile for six to seven years.

Some examples:

-  1) Bankruptcy can stay on your profile for a maximum of 7 years
-  2) Negative credit transactions can remain for up to 6 years from the date of your final payment
-  3) Negative information from bank accounts can stay on your profile for up to 6 years
-  4) Secured loans, such as mortgages and car loans, remain for up to 6 years
-  5) Debt collection stays on your profile for up to 6 years from the time the debt is assigned to collections
-  6) Legal judgements stay on your profile for up to 6 years

#### **15) What do I do if there is an error on my credit report?**

If there are errors on your credit report, you should contact the appropriate credit bureau as soon as possible. To correct these errors, you can fill out and submit a “Consumer Credit Report Update Form” to Equifax online. With Transunion, you can report a “Credit Report Dispute” on the phone or fill out a form and mail it in.

Any details provided to the credit agency will be reviewed and compared to their documentation. If the problem is not resolved, the agency will contact the consumer to settle any concerns.

#### **16) How can I use my credit score to protect myself against fraud?**

By reviewing your credit score regularly, you can protect yourself from any potential fraudulent activity. The great thing is that you can now get your credit score for free through a partnership between Borrowell and Equifax.

One of the signs of identity fraud is an unexpected change to your credit score. If you see a significant change in your credit score that you can't explain, you should get a copy of your credit report.

Only 14% of Canadians monitor their score regularly.

## **17) Myths about credit scores**

*Myth: You only have one official credit score.*

There are two credit bureaus in Canada, and each one could collect different information from credit providers and financial institutions. They each also have their own way of calculating the scores they use. Therefore, each of these agencies could have a different credit score for you based on the information that they have and the calculations they use.

What's more, each credit bureau produces different scores for different purposes. For example, a lender who is looking to approve a mortgage may want slightly different information from a lender looking to approve a smaller, shorter term loan. So Equifax has a few different scores they produce, as does Transunion.

*Myth: The higher your income, the better your credit score*

Credit scores are based on your credit history and your payment history, not how much money you make or how much you have in your bank account. Credit bureaus actually don't have access to this information and it does not have an impact on your credit score.

*Myth: Carrying a credit card balance increases your score*

Creditors and lenders want to see that you manage your credit well. Meaning that usage is a factor in determining whether you are high or low risk. It is smart to have at least one credit card as part of your financial strategy, so long as it is being used responsibly.

*Myth: Credit utilization doesn't matter*

As we mentioned above, credit utilization is worth 30% of your credit score, therefore it is very important to maintain and monitor.

*Myth: My partner's credit score is good so mine doesn't matter*

Having a good credit score on your own is very important. Much like a driving record is individually based, so is a credit score.

*Myth: You don't need to monitor your credit score*

Monitoring your credit score can protect you from any fraudulent activity that could potentially damage your report. If you do not monitor your report you are at risk for these possibilities.

## **16) Where can I obtain my credit score?**

Both of Canada's credit bureaus, Equifax and TransUnion, will allow you to purchase your credit score and credit report.

Borrowwell, a Canadian digital lender, is the first company in Canada to provide you with [your credit score online for free](#). It's safe, secure and only takes 3 minutes. No credit card is required. To get your credit score for free, visit the site [here](#).

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Corporate Branch Manager

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