

# creditscore:

## WHAT IS IT, AND WHY IS IT SO IMPORTANT?

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A credit score is a computer-generated number based on various factors in your credit files to help determine your credit-worthiness. A three-digit number indicates your ability to repay a loan, and the level of risk a lender will have to accept.

A credit score is primarily based on credit report information like the number of accounts you have open, how many credit cards you have, the number of late payments and delinquencies, typically sourced from credit bureaus. Lenders look at your credit scores to reject or accept a loan, or to determine the loan interest rate.

The credit score shows someone how desirable they are to a lender, so the higher your credit score is, the more savable rates you are going to get. When you buy a home or car, a higher credit score shows that you are physically responsible and you are going to get a better rate than the person that has a lower credit score, so it is extremely important to monitor and manage that.

### SIX STEPS TO BETTER CREDIT

**1 | Don't over-apply for credit, and only use and apply for credit when you need it.** Excessive charging, maxing-out your cards and applying for multiple accounts within a short period of time will lower your score dramatically.

**2 | Pay your bills on time.** Late payments play a major role in driving down your score. Lenders want to know that you pay your bills on time. Therefore, a good history of timely payments will improve your credit score. If you have had trouble paying your bills on time in the past, start now. A good history of six months to a year is usually enough to raise your score a few points.

**3 | Manage your debt.** Pay or settle legitimate outstanding bills. For those outstanding debts that you may have long forgotten, pay them. If you have a reason that you feel you do not owe the entire bill, call the company and negotiate a settlement. Most companies will

take half of the payment owed and will report a "settled account" status to the reporting agencies. When you are negotiating, try to have them report it as "paid" even if you have to pay a higher percentage of your bill. This could mean the difference of quite a few points.

**4 | Pay down credit cards.** Pay down your credit cards to 50 per cent of your credit limit or less. More importantly, maintain this ratio of credit used to credit available. This makes you look less desperate for credit accounts and shows that you manage your credit responsibly. If you find that you have open credit accounts that you have paid off, do not have them removed from your report. This will help your credit ratio.

**5 | Time is the only thing that can improve this aspect of your scores, but you can manage it wisely.** Don't open several new accounts in a short period, especially if your credit history is less than three years. Adding accounts too rapidly sends up a red flag that you might not be able to handle your credit responsibly.

**6 | Check your credit report on a regular basis.** Make sure you examine all of the information carefully (name, address, Social Insurance Number, date of birth and all accounts listed) and check for inaccuracies. If you find any incorrect information, accounts that do not belong to you or evidence of fraud, dispute these items with the bureau immediately.

In conclusion, your credit report needs to show that you pay your bills on time, handle your obligations, and are responsible with your money. Make it a habit of doing these things in the future and you will not have to worry about raising your credit score, as it will already be high.



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