



# BORROWING: CREDIT SCORE

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## CREDIT SCORE

Your credit score is a 3-digit number that is created using the information from your credit report. Generally, you get more points on your score if you use credit responsibly and lose points if you don't manage your credit well.

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## HOW IS YOUR CREDIT SCORE DETERMINED?

Your credit score is calculated up to a maximum score of 900. There is some variation between credit scoring models but generally:

- ▶ A score of 760 + is considered to be an excellent score
- ▶ A score between 660 and 724 is considered to be a good score

Several factors go into determining your credit score.

- ▶ Your Payment History
  - Your payment history affects your score and usually makes up somewhere around 35% of your total score.
  - To ensure you have a good credit score:
    - ▶ Pay your debts on time.
    - ▶ Avoid having your accounts sent to a collection agency. (This will seriously affect your credit score and your ability to borrow money in the future.)
- ▶ Your Used Credit in Relation to Your Available Credit
  - Ideally, you should use your credit and pay it down to zero each month.
  - If you can't, it is recommended that you not let your credit usage go over 30% of your available credit on a regular basis.
  - Never exceed your credit limit.
  - This category accounts for roughly 30% of your credit score.
- ▶ Your Credit History
  - This looks at how many credit accounts you have and how long you've had them.
  - This accounts for around 15% of your credit score.
  - It can be tempting to avoid credit but, without a credit history, many lenders will be hesitant to lend to you.
  - Try to have at least 2 kinds of credit that you've had for at least 2 years.
  - Don't be afraid of credit. Just be sure you understand it and manage it wisely.

- ▶ Your Public Records
    - This includes:
      - ▶ Any prior history of bankruptcy
      - ▶ Consumer proposals
      - ▶ Collections
    - These things make you a risky borrower.
    - This category accounts for about 10% of your credit score.
  - ▶ The Number of Inquiries on Your Credit Report
    - This category accounts for roughly 10% of your credit score.
    - There are 2 kinds of credit inquiries:
      - ▶ Soft Credit Inquiry: Done when you are not applying for credit
      - ▶ Hard Credit Inquiry: Done when you are applying for credit
        - Hard credit inquiries are recorded on your credit report because you are seeking new credit.
    - Making a lot of inquiries about credit may have a negative impact on your credit score.
      - ▶ Can make you look like a credit seeker (someone who is considered to be a higher risk because they may be in more serious need of credit.
      - ▶ Too many hard inquiries, especially in a short time frame (such as 3 months) may negatively affect your credit score.
    - Your credit score is only affected by hard inquiries or those related to credit seeking.
      - ▶ Your credit score generally only looks at inquiries over a 3 year time frame.
    - Soft inquiries (such as a landlord checking your payment history) won't negatively affect your credit score.
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## WHY IS A GOOD CREDIT SCORE IMPORTANT?

A good credit score:

- ▶ Allows you access to credit cards.
- ▶ Allows you access to loans.
- ▶ Provides access to better interest rates which can save you money over time.