What is a credit score?

As mortgage planners, it's our business to help you get you the best possible rate for your situation. Unfortunately, a less-than-stellar credit rating can affect your ability to get the best mortgage rates. You may not realize how much money your credit situation is costing you. If you have large credit card balances, too many credit accounts and have missed making some of your payments, you'll probably have some strikes against your credit score.

Known as a FICO score – with a range from 300 to 900 – your credit score tells lenders what kind of a risk you are likely to be as a borrower. Your score is based on the following five attributes, with some attributes weighted more heavily than others.

- **Previous payment history (approx. 35% of score):** Your track record of paying your credit accounts on time is the most heavily weighted attribute. Events such as late payments, collections, judgments, liens, foreclosures, bankruptcies, and wage attachments are part of this category and are considered quite serious. More recent events and large amounts will affect your score more than older events and small amounts.
- **Current level of indebtedness (approx. 30% of score):** This portion of the score considers whether you are overextended or not. Too many credit cards or keeping your accounts at or near their maximum limit can signal that you don't manage credit responsibly, and that you may have trouble making payments in the future.
- **Length of credit history (approx. 15% of score):** The longer you have had credit in good standing the lower the risk indicators. This score considers the age of your oldest account and an average age of all of your accounts. New accounts will therefore lower your average account age.
- **Pursuit of new credit (approx 10% of score):** Opening several credit accounts in a short period of time is a risk indicator. The number of enquiries done on your behalf can also have an effect. However, FICO scores try to differentiate between rate shopping for a single loan and searching for many new credit accounts.
- **Types of credit available (approx. 10% of score):** This attribute considers the mix of credit accounts you have: credit cards, retail accounts, installment loans, accounts with finance companies, and your mortgage. The goal is to determine if you have a healthy mix of credit. For instance, having a car loan, mortgage and credit card is more positive than a concentration of debt in only credit cards.

At high credit scores (750 and up), lenders offer a quick approval at the best possible rates. This score says the person is reliable and responsible with debt. At lower scores (below 620), you could pay a premium on your borrowing rate and possibly even find it difficult to qualify.

Your credit score captures your perceived lending risk at a moment in time: your score can change from month to month. The companies that hold your credit accounts and loans report transactions to credit bureaus regularly. That's a great opportunity for you, because it means you can improve your score with the right credit "behaviours".

Are you finding it difficult to get the financing you need because of your credit record? An experienced mortgage planner can often help you get out of a not-so-perfect credit situation. With access to more than 50 different lenders, including most of the major banks, they have become specialists in helping Canadians restructure debt and improve their credit. It's a great way to get started on the pathway to credit repair.

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