

## Credit: Building, Repairing & Using it Wisely

A **credit report** is a summary of how you pay your financial obligations. It contains information based on what you have done in the past. Lenders use it to verify information about you, your borrowing activity and your repayment history. Your **credit score** is based on information in your credit report and is used by lenders to predict the likelihood that you will repay future debt.

### Factors that affect your *credit score* include:

- Your payment history – do you generally make your payments on time?  
Paying on time is crucial for a good credit rating.
- How much you owe – your outstanding balances compared to your credit limits.  
Even if you have a high limit on a credit product, you shouldn't need to use the full available limit on an ongoing basis.
- How long your credit file has been open – a young person with negative information in their credit file and a slightly older person with no credit file will most likely both have difficulty obtaining credit.
- How many times you have applied for new credit – how many inquiries are registered on your credit file and what is the nature of those inquiries?  
Your credit score reflects how often you apply for new credit and how you handle the accounts that you've opened recently.
- The type of credit you have – consolidation loans, personal loans, lines of credit, credit cards, deferred interest / payment plans, etc. all impact your credit score differently.  
The impact may be positive or negative, depending on your overall credit file.
- Collections items or judgements registered against you affect your credit score negatively.



### Factors that affect your overall *credit rating* include the above as well as:

- Have savings that you add to on a regular basis and that is proportionate to your income.  
Have rainy-day savings as well as long-term, retirement savings.
- Maintain a stable address and employment circumstances.
- Use your bank account properly – overdrafts and NSF's can signal financial difficulty.
- Pay more than the minimum payment due each month on a credit card and work on bringing the balance owing down. Limit your use of the card until it is paid in full.
- Only apply for credit that you need. One, maybe two credit cards, with very reasonable limits based on your income, are all you should need. Pay them off in full every month.
- Keep all credit card balances well below the limits on all of the cards at all times.
- Reduce your monthly debt payments (excluding mortgage payments) to no more than 15 – 20% of your take-home pay. This will allow you to manage unforeseen financial challenges effectively.
- Keep credit limits reasonable – if used or charged to the limit, you should be able to pay the full balance off within a year and leave it paid off.

Good AND bad, everything stays on your credit file for 6 – 7 years, so **time** could be on your side.



For more information about budgeting, the wise use of credit and options for dealing with debt, please contact the Credit Counselling Society at 1.888.527.8999 or log onto [www.NoMoreDebts.org](http://www.NoMoreDebts.org). We are a non-profit service, helping individuals and families with free, confidential, and unbiased counselling, information and referrals.