

How to build a credit score that gets you a great mortgage rate



ROB CARRICK
PERSONAL FINANCE COLUMNIST
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Too many people are skipping a simple first step in buying a home – checking their credit score.

Credit scores are widely available at no cost these days. And when you do check yours, it's quite likely you'll have a good number that is satisfactory to your mortgage lender. Yet a recent survey by the credit monitoring company Equifax found that 60 per cent of people did not take a look at their credit score before going to see a bank or mortgage broker about a home purchase.

Actually, waiting until you're ready to buy is pushing it. The time to check your credit score is when you first start thinking about buying a home. That way, you have time to build your score so it's in prime shape when you need a mortgage.

According to RateSpy.com, a credit score of 650 or more will get you a half-decent rate, 680 or more will improve things and 720 and up will get you the lowest rate possible. RateSpy said one small lender that sometimes has the lowest rates for mortgages with default insurance requires 780 or higher.

According to RateSpy, the difference between a lowest possible and half-decent rate might be 0.15 per cent on a five-year fixed-rate mortgage, or about \$55 a month if you bought a Toronto home at the average August price and put 10 per cent down.

Equifax numbers show that only 14 per cent of credit scores in Canada are below 650 and that 70 per cent are 720 or higher. "In general, Canadians want to stay on top of their financial situation, and that's reflected in the scores that we see," said Julie Kuzmic, director of consumer advocacy at Equifax Canada.

Your credit score is designed to predict the risk to lenders that you will not repay your debts on time and in full. A growing number of financial players now offer free access to credit scores, including many big banks, the credit card specialist Capital One, the

online lender Borrowell and financial websites such as Credit Karma Canada and Ratehub.ca.

Credit scores affect much more than your mortgage rate. Ms. Kuzmic said employers are using them as part of their background checks on new hires, and landlords are using them to assess candidates for their rental units.

Ms. Kuzmic said the most important factor for building a strong credit score is making payments on time, including minimum payments on a credit card. A single late payment – up to 30 days – hurts young people with short credit histories more than borrowers with a well-established record of paying on time.

Be careful cancelling long-held credit accounts or adding new ones, Ms. Kuzmic added. Doing so will affect the average age of your debts, which is a factor in assessing your credit history. Getting rid of a longstanding card can reduce the average age of your debts, and so can adding a new card.

Repayment of student loans is reflected in credit scores, and so is your record of paying your cellphone bill. Other utilities – electricity and heat, for example – are not factored into a credit score.

Building a strong credit score is one of the arguments in favour of postsecondary students having a credit card, even if they're not working and earning money. The other reason, incidentally, is that credit cards are becoming essential for ordering goods and services online. The flip side of starting early with credit cards is that a young person can overspend and hurt their credit score with late or missed payments.

Ms. Kuzmic said it takes only three to six months to establish a credit score, and a similar amount of time to build up a low score.

The ultimate credit score is 900, a level that the vast majority of borrowers will never approach. Conscientious borrowers, don't take it personally. Credit scores include lots more information than just our history of paying on time.

“We tend to think of credit scores like a test result,” Ms. Kuzmic said. “So people who have a 780 feel like, what am I doing wrong? A bank or other lender does not care about a 100-point score different if that 100 points is 780 to 880. You're in that group? That's good enough.”

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