THE GLOBE AND MAIL

GENYMONEY

How to build a good credit score – and what can ruin it

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Special to The Globe and Mail
Published Sunday, Oct. 02, 2016 4:21PM EDT
Last updated Monday, Oct. 03, 2016 1:31PM EDT

Sustained low interest rates have Canadians embracing debt like never before. But do they know someone is tracking how they're managing that borrowed money?

"It takes years to build a really good credit rating and high credit score, and you can blow it in six months," says Scott Hannah, chief executive of the Credit Counselling Society in Vancouver. "Then it can take you six or more years to get it back."

A person's credit history begins when they apply for their first credit card or take our their first loan. A good record is built up over many years, by paying bills on time and making your debt payments. Each negative incident, such as a call from a collection agency for an unpaid bill, is noted. According to a recent report, Canadians owe $1.68 for every dollar of their disposable income. Given that record amount of household debt, it's important for consumers to understand their credit status.
Why does it matter? More landlords are doing credit checks to ensure potential tenants can pay their rent, and some employers want a credit report before hiring a new employee. Lenders are sure to check your credit rating before giving you a mortgage.

Credit report versus credit score – and how to build a good one
A credit report is a summary of a person's borrowing history, including credit cards and loans. It includes information on when the accounts were opened, how much is owed, if payments are being made on time and if someone goes over their credit limits. In Canada, there are two credit-monitoring firms that track this – TransUnion and Equifax.

Credit scores are mathematical formulas based on an individual's credit report. The scores range from 300 to 900. The higher the number, the better chance a consumer has of getting a loan, potentially at lower interest rates. TransUnion says a score between 800 to 900 is "very good" and 750 to 800 is considered "good." People with a score below 650 may have trouble getting new credit.
Utility bills such as gas, water and hydro aren't part of the credit file. However, if they get sent to a collection agency, that can hurt your score. When you miss payments on other bills, such cellphone and credit cards, that can hurt your score, even when it's not sent to a collection agency.

What's in a credit score?
There are five main factors that go into generating a credit score, according to Equifax:

- **Payment history:** How consistently you pay your credit obligations. "If you get a statement saying your credit card bill is due on Sept. 16 and you're late, it would impact your payment history. That could have some changes to your score," says Arthur Lam, consumer vertical leader at Equifax.
- **Credit mix and credit history:** "Lenders want to see a balance of usage on the credit," Mr. Lam says. For instance, if you have a car loan, a credit card and a mortgage, that's considered a better mix than if you have five credit cards and a couple of unsecured loans.
- **Credit utilization:** How much credit are you using at one time? An example Mr. Lam uses is a credit card with a $5,000 limit. If a consumer consistently runs it up to $4,500 or more, that can weigh on their credit score.

- **Public records and judgments**: A consumer who files for bankruptcy or has collection agencies hunting them down will see a huge hit to their credit score. "You definitely don't want to get into those situations, because that's a huge negative," says Mr. Lam.
- **Number of credit accounts you're seeking at one time:** Mr. Lam recommends consumers only apply for credit they need. For example, if you're buying a house and applying for a mortgage, he suggests shopping for rates first before applying for a mortgage. "What really gets consumers into trouble is when they start having multiple applications at the same time. It can be a potential ding on their credit profile," Mr. Lam says.

He recommends consumers check their own credit report regularly not just to see where they stand, but also to ensure it is accurate and that they haven't been a victim of fraud. To access your own credit file, contactTransunion.ca or Equifax.ca.
Mr. Lam says more people are checking their reports and scores these days. "As consumers become more credit-aware, they have a better understanding of how to better leverage their financial products and manage their own credit profile."

Credit report misconceptions
There's often a misconception that checking your credit score can impact your rating, says Heather Battison, vice-president of consumer communications at TransUnion. She says there's a difference between "soft" inquiries, which happen when you check your record, and "hard" inquiries, which occur when a bank, or other lender makes an inquiry. It's too many "hard" inquiries that can knock a couple of points off the score, Ms. Battison says. Other misconceptions are around the use of debit cards, which don't affect a credit score like credit cards do. A person's salary also isn't reflected in a credit score.

Ms. Battison says many consumers also don't often realize their scores are constantly changing. There are also many different credit scores in Canada, depending on the lender.

"The most important thing is that consumers have a baseline and monitor their score over time," Ms. Battison says.

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