

# CREDIT SCORING GUIDE

The credit score is used by most companies to decide if the applicant is a good credit risk or not. Equifax and Trans Union will calculate the numbers from the credit report and generate a number between 300 and 900.

A low score indicates a bad risk. A score of 680 or more puts the applicant in the lenders' good books.

How scores are calculated:

	Weight	Points
<b>Payment History</b> Bankruptcies, late payments, past due accounts and wage attachments, collections, judgements	35%	315
<b>Amounts Owed</b> Amount owed on accounts, proportion of balance to total credit limit	30%	270
<b>Length of Credit History</b> Time since accounts opened, time since account activity	15%	135
<b>New Credit</b> Number of recent credit inquiries, number of recently opened accounts	10%	90
<b>Types of Credit</b> Number of various types of accounts (credit cards, retail cards, mortgage)	10%	90
<b>Potential Totals</b>	100%	900

## How Clients Can Improve Their Credit Score

1. Order a copy of the credit report, review it carefully and correct any significant errors.
2. Pay bills on time.
3. If there is a questionable credit history, open a few new accounts and use them responsibly, paying them off on time.
4. Avoid opening accounts without intention of using them. Having five or six of the same credit card type (e.g., Visa), is not favourable.
5. Having a credit card or instalment loan can help boost a credit score, as long as the balance is not too high.
6. Keep balance low in relation to available credit. If the credit limit is \$10,000, keeping the balance below \$2,500 (or 25 per cent of the limit) will improve the score. Balances of more than \$7,500 (or 75 per cent of the limit) will decrease the score. Going over the limit has an even more negative effect.
7. Pay off credit card debt instead of moving it around to lower rate cards. Moving balances to other credit cards (i.e., "balance transfer") and closing an old account can hurt the score.



**DARIN BAUER , AMP**

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Questions? Call Toll-Free 1-888-540-4720