Credit Building Guide

Welcome to your ultimate guide to building credit! Find all the essential information you need right here.

Abbi STEVENSON
MORTGAGE BROKER

(26)868-0063
ABBISTEVENSON.CA
ABBI.STEVENSON@DOMINIONLENDING.CA

Credit Scores

Understanding Credit Scores:

Your credit score is a numerical representation of your creditworthiness, typically ranging from 300 to 900 in Canada. Here's a brief overview of what different ranges generally indicate:

Credit Score Range:

- Excellent (750–900): Excellent credit history and responsible credit use.
- Good (700–749): Good credit history with minor issues.
- Fair (650–699): Some credit issues, but manageable.
- Poor (600–649): Significant credit issues.
- Bad (300–599): Serious credit problems or very limited credit history.

Understanding Credit Bureaus:

Credit bureaus, like Equifax and TransUnion, collect data on your credit activities to create your credit report and score. This information helps assess your creditworthiness and affects your ability to obtain credit and favourable terms.

Credit Bureaus:

- Equifax Canada: One of the major credit reporting agencies.
- TransUnion Canada: Another major credit reporting agency.
- Factors Influencing Credit Scores:
- Payment History (35%): Timely payments on credit accounts.
- Credit Utilization (30%): The ratio of used credit to available credit.
- Credit History Length (15%): The age of your credit accounts.
- Credit Mix (10%): Variety of credit types (credit cards, loans, etc.).
- New Credit (10%): Number of recent credit inquiries and new accounts.

Roadmap To Building Credit

1

Establish a Credit Account:
Apply for a credit card or a small loan, starting with a secured card or becoming an authorized user on a family member's account if you're new to credit.

2

Make Timely Payments:
Always pay bills on time, including credit cards and loans. Set up reminders or automatic payments to prevent missed due dates.

3

Keep Credit Utilization Low:
Use less than 30% of your credit limit. For instance, if your limit is $1,000, keep your balance below $300.

4

Monitor Your Credit Report & Build a Diverse Portfolio:
Review your credit reports annually for accuracy and dispute errors. Maintain a mix of credit types and keep older accounts open to build a long credit history.

Do's & Dont's

Credit plays a crucial role in obtaining a mortgage as it determines your eligibility and the terms you receive.

Do's

- **Pay Bills on Time:** Ensure all your bills, including credit cards, loans, and utilities, are paid by their due dates to maintain a positive credit history.
- **Keep Credit Utilization Below 30%:** Aim to use less than 30% of your credit limit to show responsible credit management.
- **Check Your Credit Report Regularly:** Review your credit reports from Equifax and TransUnion at least once a year to spot and correct any inaccuracies.
- **Maintain a Long Credit History:** Keep older credit accounts open to benefit from a longer credit history, which can positively impact your credit score.
- **Use Different Types of Credit Responsibly:** A mix of credit types (e.g., credit cards, installment loans) can be beneficial if managed well.

Dont's

- **Don't Apply for Multiple Credit Accounts at Once:** Multiple credit inquiries in a short period can negatively affect your credit score.
- **Don't Max Out Your Credit Limits:** Avoid using your entire credit limit to maintain a healthy credit utilization ratio.
- **Don't Ignore Errors on Your Credit Report:** Failing to address inaccuracies can lead to a lower credit score, so report any discrepancies promptly.
- **Don't Close Old Credit Accounts:** Closing long-standing accounts can reduce your credit history length and potentially lower your credit score.
- **Don't Accumulate Unmanageable Debt:** Avoid taking on more debt than you can handle to prevent financial strain and potential damage to your credit score.

Dealing With Poor Credit

Building a Positive Credit History

After addressing the immediate issues with your credit report, focus on building a positive credit history. Start by ensuring timely payments on all current accounts, as payment history significantly impacts your credit score. Use credit responsibly by keeping balances low on credit cards and avoiding maxing out your credit limits.

Establishing a mix of credit types, such as a small installment loan or secured credit card, can also help demonstrate responsible credit use. Regularly monitor your credit report for accuracy and track your progress. Over time, these positive habits will help improve your credit score and rebuild trust with lenders.

Seeking Professional Guidance

If you're struggling to manage your credit issues on your own, consider seeking professional guidance. Credit counselors can offer tailored advice and help you create a budget and repayment plan that suits your financial situation. They may also assist in negotiating with creditors to reduce interest rates or consolidate debt.

Additionally, financial advisors can provide long-term strategies for maintaining good credit and achieving financial goals. By leveraging expert advice, you can gain valuable insights, enhance your financial management skills, and work towards a more secure financial future.

Maintaining Good Financial Habits

Once you've made progress in improving your credit score and building a positive history, it's crucial to maintain good financial habits to ensure continued success. Develop a budget to manage your income and expenses effectively, making sure to allocate funds for savings and debt repayment. Avoid taking on unnecessary debt and regularly review your financial goals to stay on track.

Setting up automatic payments can help ensure bills are paid on time, reducing the risk of missed payments. Additionally, keeping an emergency fund can provide a financial cushion, helping you manage unexpected expenses without compromising your credit health. By staying disciplined and proactive, you can sustain a strong credit profile and secure your financial stability.

Helpful Resources

RESOURCES:
Equifax Canada: Equifax Canada
TransUnion Canada: TransUnion Canada
Credit Counselling Canada: Credit Counselling Canada
Government of Canada - Financial Consumer Agency of Canada (FCAC): FCAC Website
Credit Karma Canada: Credit Karma Website
Borrowell: Borrowell Website
Credit Canada Debt Solutions: Credit Canada Website
Consolidated Credit Counselling Services of Canada: Consolidated Credit Website
Loans Canada: Loans Canada Website
Capital One Canada - Credit Building Cards: Capital One Website
Debt.ca - Credit Building: Debt.ca Website
Credit Counselling Society: Credit Counselling Society Website
Spring Financial: Spring Financial Website
Scotiabank - Credit Cards: Scotiabank Website
Home Trust Secured Visa: Home Trust Website
LoansCanada Blog: Loans Canada Website
MapleMoney: MapleMoney Website
Million Dollar Journey: Million Dollar Journey Website
Boomer & Echo: Boomer & Echo Website
My Own Advisor: My Own Advisor Website

Closing

Building and maintaining a strong credit history is a critical aspect of financial health and stability. By understanding the fundamentals of the credit system, making informed financial decisions, and consistently using credit responsibly, you can achieve a robust credit profile that opens doors to numerous financial opportunities.

We hope this comprehensive guide has equipped you with the essential insights and practical strategies needed to navigate your credit-building journey successfully.