

CHAPTER 7

CANADIAN CREDIT BUREAU

Importance of a Good Credit Rating

There is no excuse to have a bad credit score. Every Canadian can make one inquiry per year free of charge. When you inquire about your rating, it does not count negatively towards your score, nor does the number of inquiries you make matter.

Most of us do not understand the importance of the credit bureau. Credit bureau reports will show our previous and current credit rating, and indicate how well you handle credit. If you do not handle credit very well, you will be charged a higher interest rate on your application for any credit or can be denied depending on the financial institution.

There are many things that can hinder our credit rating such as: late payments of your bills, not paying your bills at all, collection activities against you, legal judgements against you, bankruptcies, and too many credit inquiries (not to be confused with inquiries about your credit rating itself).

To most of you, this list is of no surprise except for “too many inquiries.” Why would lenders find that negative? The answer is that when you make many inquiries on your credit bureau record, you become what lenders call a "credit seeker." To them, it seems that you cannot get credit and you are desperately going door to door to every lender to obtain it. Therefore, you must keep your inquiries limited. Each additional check on your credit bureau in a short period will cost you 25 points.

It is very important to know that all financial institutions need your authorization before they can pull credit bureau reports on you. When shopping for mortgages or lower rates, do not allow

the lender to pull your credit report until you have decided which lender to use.

A good credit score is between 680 to the maximum 900. The higher the score, the lower the probability that you will become delinquent and not pay back the loan with all the accrued interest. If you have less than 680 points as your credit score, you cannot get the best interest rate on your credit cards, loans, or mortgage..

Each lender will make a lending decision on more than just your credit rating. How many credit facilities you have is also important. For example, you have five credit cards with a \$10,000 limit, a line of credit with a \$10,000 limit, a \$5,000 loan, and a \$100,000 mortgage. You are high risk as you have too much credit stacked up and have a high potential to borrow towards the maximum limit.

There are two credit-reporting agencies: Equifax and Transunion.¹⁴

If you find out that you have a low credit score, do not worry. That can be fixed. It just takes six weeks to three months. In that period, you must do everything right. Then, you will be back to an acceptably high credit score.

You rebuild your credit score after a late payment or high outstanding balance. You just have to find a way to pay or substantial portions of your debt. In the meantime, you cannot have any late payments and you should lower your balance.

Tips on Credit Ratings

It is very important to have all your personal information correct and current at the credit bureau. Your name should be exactly as

¹⁴ The websites for these companies are www.equifax.ca and www.transunion.ca.

on your government identification. The same goes for your date of birth, SIN number, address, employment, and other details.

When you review your credit report and find inaccuracies in your information, contact the credit agency or you may have difficulties when applying for a loan or mortgage. Your lawyer will have to prove you are the same person and you will have to pay legal fees for that work. It is your right to dispute any discrepancy, such as an inaccurate record of missed payments, by immediately notifying the credit reporting agency.

Another scenario may be that you have multiple credit files because your name appears differently. For example, you may have credit ratings under both William and Bill.

Do not close your oldest credit card. This will affect your score. The longer your history, the better your score. Each time somebody else checks your credit history, it will stay on your record for three years. If you are shopping for loan interest rates or applying for any credit, make sure you tell the person with whom you are dealing that you are just shopping for rates or products and do not consent to a check of your credit report.

The most devastating effects on your credit score occur when collection agencies are sent after you or you go into bankruptcy.

When a debt is turned over to a collection agency, the first thing the agency does is register it with the Credit Bureaus, regardless of the issue around the debt—you may be not paying it because you do not think it is fair, but that will not matter. Your credit score will be reduced by 100 to 200 points, and you will still have to pay the debt and fight with the collection agency to get your credit score corrected.

A friend of mine was parked on the street with free parking after 2 pm. His car was towed after 2 pm, when he was supposed to be able to park without trouble, and he was hit with a \$100 towing charge that he refused to pay. The towing company turned it over