Your Credit Score - What Makes the Score and More…

In Canada, your credit score that is displayed at the top of the first page of your credit report is called a "beacon score". A beacon score is an indicator of how likely a consumer is to pay a future loan, lease, credit card or any other credit facility under the terms agreed upon with the credit grantor. Your credit score is something a potential credit grantor will review to evaluate an application for credit. There are two credit reporting agencies in Canada – Equifax and TransUnion. Lenders believe that the previous two years of credit history provide a good indication of credit activity and worthiness during the next two years.

What information is used to calculate a beacon score?

A Beacon score is calculated in a mathematical equation that evaluates information on a consumer's credit file compared to information patterns in millions of past credit files. The score can then identify the level of future credit risk for this consumer. It's important to note that a credit report is a snapshot of a consumer's credit risk picture at a given moment in time. The higher the individual's score, the lower the perceived credit risk to credit grantors. In order for the beacon score to be calculated on a credit file, the consumer's file must have at least one account that has been opened for three months or greater as well as one account that has been updated in the past six months. This ensures that there is enough recent information a consumer's credit file on which to base a score. If the requirements to generate a score are not met, then a "reject" result will be displayed on the consumer's credit report where one would otherwise expect the beacon score to be displayed.

What is the range of beacon scores?

Beacon scores can range from 300 to 850, but the majority of scores usually fall within the 600s (18% of Canadians) and 700s (46% of Canadians). Since there is no one universal "score cut-off" used by all lenders, it is hard to say what a good score is outside the context of a particular lending decision. However, for mortgage purposes, any score over 720 will allow a borrower to gain access to any lender's program that relies heavily on credit (ie. stated income program for self-employed individuals). However, most mortgage borrowers will find that as long as they have a credit score over 600 with few recent derogatory remarks, they will qualify for a mortgage.

What makes the score?

There are five main categories of information that are evaluated by the credit reporting system to determine a given credit score. These are:

1. **Payment history** - Approximately 35% of a consumer's score

    - Payment information/history on accounts such as Visa, MasterCard, American Express; retail department store accounts; installment loans; lines of credit; leases; finance company accounts and, in some cases, mortgage loans.

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- Public record and collection items such as bankruptcies, foreclosures, wage garnishing orders, liens, judgments and delinquencies reported to collection agencies.
- Details on late or missed payments (delinquencies) and public record and collection items, specifically focusing on how late they were, how much was owed and how recently and how frequently late payments occur.
- How many accounts show no late payments.

2. Amounts owed - Approximately 30% of a consumer's score

- The amount owed on all accounts.
- The amount owed on different types of accounts.
- Whether a consumer is showing a balance on certain type of accounts.
- The number of accounts with balances.
- How much of the total credit line is being used on credit cards and other revolving credit accounts.
- How much of the installment loan accounts is still owed, compared with the original loan amounts.

3. Length of credit history - Approximately 15% of a consumer's score

- How long the consumer's credit accounts have been established. The score considers both the age of their oldest account and an average age of all the accounts.
- How long specific credit accounts have been established.
- How long it has been since the consumer used certain accounts.

4. New credit - Approximately 10% of a consumer's score

- How many new accounts they have.
- How long it has been since they opened a new account.
- How many recent requests for credit they have made, as indicated by inquiries to credit reporting agencies in connection with transactions initiated by them. The score does not take into account requests a creditor has made for a consumer's credit file or score in order to make a preapproved credit offer, or to review the consumer's account with them, nor does it take into account a consumer's request for a copy of their credit report.
- Length of time since creditors made credit file inquiries.
- Whether a consumer has good recent credit history, following past payment problems or derogatory remarks.

5. Type of credit use - Approximately 10% of a consumer's score

- What kinds of credit accounts they have and how many of each.

What type of information is NOT used in determining a consumer's beacon score?

- Race, color, religion, national origin, sex, marital status or age
- Salary, occupation, title, employer, date employed or employment history
- Where the consumer lives
- Certain types of inquiries such as promotional, account review, insurance or employment related inquiries
- Any information not found in the consumer's credit file
- Any information that is not proven to be a predictive of future credit performance

How often does a consumer's beacon score change?

Credit files are continually updated with new information from creditors. Most creditors report consumers' latest credit and payment activity to Equifax and TransUnion once per month, on the same day of every month. A consumer's beacon score is determined based on the latest 'snapshot' of information contained in the consumer's file at the time the credit report is requested. As such, the beacon score changes over time and it would not be unusual for a beacon score to change by a few points (or even 10-15) on a month to month basis.

Some tips to keep your score high (or increase it!)

Keep your balances on lines of credit and credit cards under 85% of their limits – I've been told that once your balance exceeds 85% of the available credit, this will create a trigger with Equifax and TransUnion and you may find your score is lower if you have high balances relative to your current limits.

Keep your balances under the limits on credit cards – if you notice that you are over limit on any credit cards, pay them down right away, and if this is a recurring event, then it might actually be a smart idea to increase the limits on your credit cards so that you don't consistently have balances that are over your credit account's limits.

If you have very few credit facilities in place and have one that is old and that you don't frequently use, don't cancel it – keep it, and use it now and then. There's a good chance that the older credit card is actually the key ingredient to creating the score you currently have and if it didn't exist, you may find that either your score could be lower or that you may have a "reject" result when a future credit grantor goes to obtain a copy of your credit report.

Pay your bills on time (enough said).

Obtain a copy of your credit report from Equifax once per year and review your report to make sure that your personal information (birthdate, SIN #, current address, employer info) are all correct, as well as the credit accounts and your history. If something looks amiss, contact Equifax or the appropriate credit grantor to have the errors corrected so that when you are in a position of applying for credit, you don't have to address any issues then (when you might not have the luxury of time to do so).

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