

A HIDDEN DEBT ESSENTIAL:

BY: THE BLACK CREEK FINANCIAL ACTION NETWORK

Your Credit Score



From earlier issues of Boss, readers know essential tips for managing money and debt well. In this article we address a behind-the-scenes, hidden debt essential – your credit score. By being a savvy borrower, you can actually improve your credit score and reduce your cost of borrowing.

Your credit score is a number that reflects your credit-worthiness. The higher the number, the more credit worthy banks and other lenders consider you to be. The more credit-worthy lenders consider you to be, the more negotiating power you will have when discussing the interest rate and other terms of a loan from a bank.

Checking your credit report is good practice and knowing how borrowing and repayment patterns can affect your credit score are essential information

for the expert money manager.

Your history with using credit (credit cards, bank loans, car loans, etc) determines your credit score. If you understand how your credit score is affected by your credit history and credit usage, you can make sure your borrowing and repayment patterns give you the highest possible credit score.

Here is some information about managing your borrowing to maximize your credit score that we found interesting.

Using a prepaid card won't help to improve your credit score but using a secured credit card will help to improve it and is one of the best ways to establish a new credit history or repair a bad one!

Prepaid cards are not credit; rather they work much like your bank account balance. If you have a prepaid card with a balance of \$500 on it, once you've spent that \$500, you have nothing left. A secured credit card works a little differently. Suppose you pay \$500 to a credit card issuer as a security deposit (much like a security deposit on an apartment lease). The credit card issuer sets a credit/spending limit on your credit card. (And sometimes that credit limit will only just equal the deposit.) When you use the credit card to purchase something for say \$300, you must pay back that \$300 to the credit card company and your deposit of \$500 remains as the security. When you use your secured credit card responsibly (making payments on time), your credit score improves. When you close the account, you get

your \$500 back.

Your cell phone payments history may affect your credit score!

Even though a cell phone account is not credit in the same way a credit card or a bank loan is, if you make late payments, miss payments, or your cell phone account is sent to collections, your credit score will be damaged if the cell phone company reports that history to the credit reporting agencies.

For a given borrowed amount, it's better for your credit score to have a higher credit limit and use less of that available credit on older credit accounts than it is to use a greater percentage of a lower credit limit on newer accounts. (Say what?)

Your credit score is affected by the percentage of your credit limit that you actually borrow, not the credit limit itself. So if two people each borrow \$500, but one has a credit limit of \$1000 and the other has a credit limit of \$1500, the person with the higher



your credit report. If there are a large number of inquiries, while it may be because you are a savvy consumer shopping around for the best loan contract, the potential lender might view it as though you are desperate

Agency of Canada (<http://www.fcac-acfc.gc.ca>) for lots more information and tips on Budgeting and Money Management.

Material for this article was written by

SHOPPING AROUND FOR THE BEST PRICE ON A CAR LOAN OR MORTGAGE FOR A HOUSE CAN DAMAGE YOUR CREDIT SCORE IF IT TAKES YOU MORE THAN 2 WEEKS TO DECIDE WHICH LOAN TO ACCEPT.

\$1500 credit limit will have a better/higher credit score (everything else equal). (To maintain the best credit score, try to keep your borrowing under 35% of your total available credit.) And while credit card companies may offer very attractive incentives to get you to sign up, you will have a higher credit score if you keep your older credit account.

Shopping around for the best price on a car loan or mortgage for a house can damage your credit score if it takes you more than 2 weeks to decide which loan to accept.

When you apply for credit, potential lenders submit inquiries about your credit score to the credit reporting agencies. The number of inquiries about your credit score is recorded in your credit history and included in

for credit. When you are shopping around for a car or a mortgage, try to do it within a two-week period. All inquiries related to auto or mortgage loans made during this time are usually combined and treated as a single inquiry.

It's easy to get a free copy of your credit report (but they charge a small fee to provide your credit score). There are two credit reporting agencies in Canada—Equifax Canada (www.equifax.ca) and TransUnion Canada (www.transunion.ca). To find out more about how you can order your free "credit file disclosure" from Equifax or your "consumer disclosure" report from TransUnion (and to correct any reporting errors!), contact the reporting agencies directly or visit the website of the Financial Consumer

members of the Black Creek Financial Action Network (BCFAN). We are a multi-partner network working towards coordinating efforts among the many agencies providing financial information; mounting public events with a financial focus; advocating for the community on finance matters; sharing the best and promising practices aimed at building the capacity of service providers; and researching and evaluating financial programs and services. For a list of members and other information about BCFAN, please visit us at <http://cec.info.yorku.ca/partnerships-collaborations/black-creek-financial-action-network>.

Readers of BOSS magazine are welcome to submit their financial questions to BCFAN. Please email your questions and inquiries to yorkcec@yorku.ca ☐