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7 Things you 'Must Do' to Improve your Credit Score

Knowing your credit score is half the battle to securing any credit, in particular a mortgage loan. It is important to manage your credit before and during the loan process. Keeping control of your credit situation will ensure you are able to secure the best possible rate.

Having a beacon score of at least 680 on your credit bureau will give you access to the most mortgage products, which will improve your chances of being approved. You should also be aware that your mortgage lender will pull your credit bureau when you apply for your mortgage and again on closing. If there are any changes, you may not qualify for a mortgage because your loan was underwritten and approved conditionally based on your original rating. Finally, if your current credit situation is not where you believe it

should be, here are 7 steps to improving your credit in the next 12 months and increase your likelihood of being approved for a mortgage.

1. Review your Credit Bureau

The first thing you have to do is obtain a copy of your credit bureau so that you can review your credit score and any possible errors that might be affecting your score. You can receive free copies of your credit bureau, however they will not include your credit score which you will need so that you can evaluate your existing position and track your progress. It is recommended you pull your credit bureau at least twice per year. You can access your credit bureau from www.creditscore.ca. It will cost \$23.95 and can be accessed immediately.

Slight discrepancies reported by your creditors

can affect your credit file and can mean the difference between excellent credit and poor credit. If you should find a problem on your credit bureau, you can report the problem by contacting Equifax and completing a form available on their website.

<https://www.econsumer.equifax.ca/ca/view/investigation/investigation.jsp>

Trans Union of Canada is Canada's second

INSIDE THIS ISSUE

1. Review your Credit Score
2. Understanding your Credit Score
3. Re-establishing your Credit
4. Pay your Bills on Time
5. Don't Apply for New Credit
6. Don't Consolidate your Debt onto one Credit Card
7. Establish Multiple Types of Credit



largest organization for producing credit bureau reports. Typically, the information should be very similar to the Equifax report, but it is important to check here as well as some lenders will only use one or both to create a credit profile for you when they are accessing your risk level as a potential client. You can access your credit file from www.TransUnion.ca.

If you find a discrepancy here it can be reported to Trans Union of Canada.

All Equifax and Trans Union of Canada reports must be sent to the following:

*National Consumer Relations
P.O.Box 190, Station Jean-Talon,
Montreal, Quebec, H1S 2Z2
Facsimile: 514-355-8502
Tel: 1-800-865-3908*

*Trans Union of Canada
P.O.Box 338 L.C.D.I.*

*Hamilton, Ontario, L8L 7W2
Tel: 1-800-663-9980*

Note: Any errors or omissions can take up to 90 days to be updated and in some cases even longer. If you are in the process of applying for a mortgage and there are problems with your credit bureau, it is important you make your TMG mortgage agent aware of the situation as they may be able to assist you in avoiding any potential problems with your loan.

2. Understanding your Credit Score

Your beacon score, or more commonly known as your credit bureau score, encompasses five elements. Each factor is important and should be managed appropriately to improve your score. These factors, in order of importance, are:

- **Payment History:** Paying your debt on time, consistently and if possible in their entirety
- **Outstanding Credit Balances:** Keep your credit accounts below 30% of their available limits

- **Credit History:** The length of time that you have established your credit
- **Type of Credit:** Carrying a mix of different types of credit products (ie. car loan, credit cards, personal loan)
- **Inquires:** Limit the number of inquiries on your credit bureau.

Note: Your beacon score can range as low as 300 and as high as 900.

3. Re-establishing your Credit

If you have had problems in the past or have not established an appropriate credit history to be approved for a mortgage, you will have to build your credit. The best way to re-establish your credit score is to acquire a credit card. However, not everyone will be approved for an unsecured card, especially if you have been previously bankrupt or have a limited credit history. Thankfully, there are other options available to build and improve your credit profile e.g. you can apply for a secured credit card. Secured credit cards require that you make a security deposit for the amount equal to the credit



limit that will be set. It is important to note this deposit is not a pre-payment but a security that allows you to borrow money. These credit cards report to both Equifax and Trans Union on a monthly basis and require you to make payments on time. The advantage is that almost everyone will be approved and you can control your credit limit, often as low as \$75 and as high as \$10,000. You can obtain a secured credit card from Capital One Secured MasterCard®, Horizon Plus Secured MasterCard® and Home Trust Secured VISA.

4. Pay your Bills on Time

Paying your bills on time is the best way to improve your credit score and it's never too late to bring your accounts up to date. Continually making payments to your creditors when required will start reducing your debt and over time improve your credit score. Even if you



have had serious delinquencies in the past, keeping your payments current will begin to improve your beacon score as the negative effect will decrease over time.

5. Don't Apply for New Credit

During your mortgage loan approval process, it is important you do not apply for any new credit products. Lenders make decisions and offer you a commitment based on your credit situation at the time you submit your application. Even if you simply apply for a new credit card it could affect your credit score and perhaps change your profile to a point that you will not qualify for your mortgage on closing.

6. Don't Consolidate your Debt onto one Credit Card

Consolidating your credit card debt onto one card or spreading it over multiple cards may seem like the



smart thing to do, but it will not improve your credit score. In fact, it may have the opposite effect as it may appear as though you have maxed out one or more of your cards rather than carrying small balances on several. It is best to simply pay off your debt and it is the most effective way to increase your credit score.

7. Establish multiple types of credit

There are several types of credit products available to you; these include open, revolving and installment. Open accounts are typically credit which is extended to you that needs to be paid in 30 days. An example of this type of credit would be an American Express card; they will extend open credit but you must pay the entire balance within a month. You may also have revolving products such as credit card accounts or credit lines. These are great products for showing your

ability to manage your credit debt ratio. If you are able to consistently make your payments on time and keep your monthly balance below 30% of the total available limit then you will begin to develop a strong credit history. The third type of credit is installment credit - although the other types of credit can help improve your overall credit score and profile, this type is most important when you are applying for a mortgage loan. Installment credit, like car loans, are products that you have a fixed number of payments required to repay the borrowed money. Lenders will use your repayment history on installment credit because it simulates the repaying of a mortgage loan.

If you have any questions on credit and how to improve it quickly, just call one of our TMG Mortgage Agents and they will be happy to help.

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