



# Kam's Mortgage Monthly

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## Repairing Credit 101

Is a good credit rating important? Well turn on the TV, listen to the radio or check out those internet ads, they are all constantly telling you the importance of a great credit rating. Some of them also tell you the consequences of a not so stellar rating, but I'm sure most of you already know what that is. Seeing as credit is so important, I thought it would be good idea to talk about "the "good" the "bad" and the "ugly."

What exactly can a good credit score do for you? Well, it will typically get you approved for a mortgage or any other type of loan or credit card both sooner and at a better interest rate than if your score was in the toilet. These potentially lower interest rates will mean savings in real dollars to you and your family.

How lenders get your credit score is by requesting a copy of your credit bureau through either of the 2 credit reporting agencies in Canada, Equifax and Trans Union. Most lenders rely on Equifax. A credit score is derived from data in your credit bureau and it indicates to the lender the statistical probability that you will become delinquent on the loan. In Canada this credit score is called a Beacon Score. It is the only indicator that a lender has that allows them to gauge your credit worthiness. After all these lenders don't know you personally. all they have to go on is what is being reported to the credit bureau on your behalf.

Beacon Scores typically range from 350-850. People that have scores that fall below 600 are considered high risk borrowers, with the risk factor increasing as the score keeps dropping. The dividing line between good and bad seems to be about 620-640 depending on who you ask. From 640 to 660 is considered average. If you're between 660 to 690 you're considered to be pretty good credit wise, and if you're above 690 then excellent is the word for you.

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Something  
to  
Ponder

*Life is really  
simple, but we  
insist on making  
it complicated!*

*Confucius*

## Repairing Credit 101, cont'd...

When it comes to lending, lender's rely upon the "5 C's of borrowing" when making the decision. The 5 C's are:

- ⇒ Character
- ⇒ Collateral
- ⇒ Capital
- ⇒ Capacity
- ⇒ Credit

It's the beacon score that sums up all of the 5 C's for lenders, and the following categories are given weight accordingly in the formation of your overall score:

- 35% for late payments, bankruptcies, collections and judgments
- 30% for current debts
- 15% for how long accounts have been opened and established
- 10% for types of credit
- 10% for applications for new credit

So, as you can see there is no one thing alone that determines your beacon score. The good news about that is that even if you "crater" in one area in the short term the other areas will help to minimize the damage. The bad news, however, is that if you "crater" in more than one or the major one's it will take some time to dig yourself out again.

### Starting the Repair

So where do you begin? Well, the first thing is to check your credit report at least once a year. What you don't know, more than likely is hurting you! At the end of the day, it's your responsibility and more importantly, in your best interest, to correct errors and inaccuracies.

Here are a few things to look for and check:

- ◆ Identity theft
- ◆ Paid loans still showing unpaid
- ◆ Other people's debt on your bureau
- ◆ There may be a collection or a judgment that you didn't even know about
- ◆ There could be a paid collection or judgment still showing unpaid
- ◆ If you are separated or divorced, you may have co-signed for a loan and don't remember signing for it, and you ex may be in default or delinquent on it.

If you discover mistakes, start working to correct them asap as this process can be quite time consuming. The sooner things are fixed the sooner your score starts heading north!

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## Repairing Credit 101 contd...

Another way to improve your credit score is to never miss payments! This sounds easy, but it may be difficult for some. Debt consolidation can help folks manage their bills and improve their cash flow. This is something that I can typically assist you with. The best way to get started down this road is to give me a call so we can set up an appointment to go over your individual situation. Sometimes I'm not able to assist and in these situations you might need a Debt Consolidation agency. These folks can be found by looking in your local telephone directory or by going online and looking under "Debt Consolidation Agencies." Always a good idea to contact more than one so you can get a "second opinion" about your individual situation.

Having one or more maxed out credit cards is another hindrance to having a good credit score. As a rule, keep all credit cards at no more than 50% of credit limits at all times. It is better to use more than one credit card and to have them below 50% of the credit limit than to have one that is close to being maxed out, or worse yet, over the limit.

Another no-no is to constantly apply for credit. Unfortunately however, most folks don't realize that this hurts their credit score. Keep in mind that applications for credit account for 10% of weighting given to the overall credit score, so be both prudent and mindful when doing so.

Applying for and getting a secured credit card to fix credit is a great way to improve your credit score. It is a credit card that is secured by funds on deposit by you. The lender is at no risk and you get to establish and rebuild credit. Monthly payments have to be made on time, obviously! Another bonus is that you have the benefits and freedom of having a credit card. This can also be done with some financial institutions by way of a secured loan; again you would secure the funds and make monthly payments in order to help reestablish your credit rating. This method will involve paying some interest, but the short term cost will be well worth the long term gain.

**So take the next step and get started today, repairing your credit is not something you want to put off for another day!**

## New Referral Program

**Your referrals are always welcome, so if you can think of someone who may benefit from my services, please send me an e-mail, [kam.brar@vericoselect.com](mailto:kam.brar@vericoselect.com) or call me at 250-686-4246. *If it all works and the folks you have referred take a mortgage then I will send you a cheque for \$250.00.* Never dealt with me, not sure what kind of service you're going to get? [click here](#) to see what some of my clients have to say!**

If you have any questions or comments please contact Kam at [kam.brar@vericoselect.com](mailto:kam.brar@vericoselect.com) or visit [www.kamthemortgageman.com](http://www.kamthemortgageman.com)

