How To Control Your Credit Score:

By: Chad Moore

Download each of my pillars for Mortgage qualifying at
www.chadmoore.co/mortgage-calculator-home.

You'll learn about:

- Income eligible for Mortgage qualifying.
- Down payment eligible for Mortgage qualifying.
- Understanding how much you can afford to purchase.

For other information related to understanding your Mortgage qualifying, the local Real Estate market and for strategic economic updates, please visit my blog:

www.chadmoore.co/blog.

My goal is to become the number one Mortgage Broker in Alberta by 2025. My plan for doing so is to ensure you feel confident in your Mortgage plan and strategy that helps achieve your Real Estate goals.

I do this with expert advice, personal customer service and ongoing Mortgage management so you feel very confident referring your friends, family and co-workers.

Reach my team or I by calling 403-809-5447 or emailing
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Thank you,
Chad Moore

How To Control Your Credit Score:

For many of my clients, credit is a bit of a mystery. Considering how important credit is to qualifying for a Mortgage, getting a cell phone, setting up home utilities, and more, it's lost on me why this is not a bigger part of our educational system.

I have worked with many clients who are interested in purchasing a home, but are stuck repairing their credit due to ignorant decisions.

Unfortunately, having a bad credit score is either a full stop to the Mortgaging process or a very expensive endeavor. Here's what I mean …

Mortgaging a home with less than ideal credit is possible with either a large enough down payment OR enough home equity. However, these kinds of Mortgage lenders charge above market interest rates to compensate themselves for higher risk clients.

Without this pile of money in the form of down payment or existing home equity, having bad credit puts a dead stop to the Mortgaging process. I sure you don't want this kind of embarrassment.

You want good credit and to understand how to maintain or improve it! That's exactly what you'll discover below!

I hope this material is helpful with your decision-making on how to navigate life events that affect your credit.

Here's what you'll learn reading below:

- i) What is my credit bureau and credit score?
- ii) How to quickly establish my credit score if I am starting out?
- iii) How to supplement thin credit?
- iv) What makes up my credit score?
- v) How to increase my credit score?
- vi) How do I unknowingly hurt my credit?

What Is My Credit Bureau And Credit Score?

My credit bureau displays my debt repayment history, my current outstanding liabilities and any payments for loan(s) I am responsible for.

Based on *everything* in my credit bureau, my credit score is produced. The details of my credit bureau, and my actual credit score, are a tool that Mortgage lenders look at to help determine the likelihood I will repay my Mortgage loan in full and on time.

The actual algorithm to create my beacon/credit score is an exact science, but not completely disclosed for public knowledge. Industry professionals have boiled down 5 important factors that do influence my credit score. These factors are explored later.

<u>How To Quickly Establish My Credit Score If I Am Just Starting Out? :</u>

When meeting with clients in my office, moments before I click the "Request Bureau" button in their Mortgage application, I see people hold their breath, pause and stare at the screen with nervous energy.

I think these emotions flare up because I am not sure of the results I may see in my bureau OR am nervous I even have established my credit at all.

Have you heard the saying, the best time to plant a tree or start a business is 10 years ago? The same is true for a good-looking credit bureau.

Since we can't go back in time, the best time to start establishing your credit is TODAY. And here's how:

3 Easy Ways To Establish Your Credit Score Today:

1. **Apply for a credit card with your Bank**. When you receive your credit card in the mail, use it. It's not enough to let it sit in your purse or wallet, never to be used.

   Buy some gas, groceries, book a flight or buy new shoes (things in your budget). In the beginning when establishing your credit, leave a small balance on your card. Do not pay the whole amount to zero.

   Every month the credit lenders report your credit information to Equifax and Trans Union. These are the credit agencies that keep, sort and establish your credit history.

2. **Leave a small balance on your credit card bill**. DO make at least the minimum payment required for that months (every month) statement. But do leave a small balance in the beginning.

   When trying to *quickly* establish your credit history, leave a small balance on your credit card so the credit lender has information to report to the credit agencies.

   This will trigger the beginning of your credit history sooner. Don't worry about that small balance left behind. Yes, you have to pay interest on that amount, but hopefully you see the benefit to triggering a credit history sooner than later. Once your credit history is quickly initiated, continue to pay your credit card balance to $0 every month.

3. **Purchase a pre-paid credit card.** If your Bank is not comfortable setting you up with a credit card, save your money and purchase a pre-paid credit card.

   Use this as a regular credit card, follow my advice from point number two above.

   Eventually move away from the pre-paid credit card. Your credit lenders will offer you a traditional credit card that I recommend you take. ***Do not cancel your pre-paid card though!*** You'll read about the benefits of an established credit history below. You will eventually be offered higher and higher credit limits – I recommend increasing your limit to at least $2,500.

Mortgage lenders also like to see a minimum of two trade lines in my credit history. A "trade line" is another way of saying "credit type".

Lenders like to see that I have a line of credit, credit card, personal loan or auto loan repayment history (these are different credit types).

The more diverse, established and healthy my credit history is, the better I look to Mortgage lenders. Also, consider increasing the limit on your credit amounts to a minimum of $2,500. This holds more importance in your credit bureau than a $500 credit limit credit card.

<u>How To Supplement Thin Credit?</u>

If I have no history of re-paying any debt and now I want to borrow hundreds of thousands of dollars to purchase a home, wouldn't that make the best of us a little concerned about extending the money?

Typically, Mortgage lenders like to see a two-year history of near perfect established credit to feel comfortable lending me money. Now I hope you see why establishing a good credit score early is important!

IF I am dead set to purchase a home without a long and thick credit history, waiting two years to establish my credit may not be an option. Here are some ideas to consider accelerating the process …

Add a co-signer to my Mortgage application.

A co-signer for a Mortgage application adds their income, assets, liabilities, and credit score. The co-signer's information is mixed with all other applicants information.

If the main applicant has enough income and down payment to qualify for the Mortgage, but lack reasonable credit history, a co-signer can support this missing aspect in the application (assuming all other parts of the application make sense).

Mortgage lenders like to have a well-rounded Mortgage application to help them feel secure approving the file. There is also another way around a "thin" credit history.

Thin Credit History? Increase The Down Payment Amount.

IF I have a down payment that is a large portion of the homes value (25% or 35% for example), this begins to help offset my thin credit history when applying for a Mortgage.

As we've discussed, credit is an indication of the likelihood I repay my Mortgage, on time and in full.

Mortgage lenders will also consider the odds of me walking away from 25-30% equity position in my property as less risky versus only a smaller percentage down payment (5% for example).

In the event of a foreclosure, a 25% down payment or more, provides sufficient equity to sell the home without any loss to the Mortgage lender (again, limiting their risk).

With a higher home equity payment percentage I am likely to ensure I retain my home and avoid foreclosure.

If I'm "New To Canada" Can I Use Alternative Forms Of Credit?

Remember, ideally I start some form of credit history with Equifax and Trans Union (Canadian credit agencies) as soon as I am able to. Parents, this means for your children by the age of 18.

However, if I recently moved to Canada and am planning to purchase a home, I do not have to wait two years to establish my credit history. I can use other forms of alternative credit.

If I am new to Canada, and fit other Mortgage qualifying criteria, it is possible to use the following to help supplement thin credit:

- Utility bill payment history.
- Cell phone bill payment history.
- Letter from Bank confirming payment history.
- Letter from landlord confirming rent payments.

We’ve established the importance of initiating credit, now let’s understand what makes up one’s credit score.

<u>**What Makes Up My Credit Score?**</u>

There are 5 major portions to my credit score that I need to understand so I remain in control of my financial future.

Each area is weighted a little differently than other parts of my credit bureau. To make this easy, think of your credit score as a pie. Some pieces of the pie are larger, and therefore worth more compared to smaller pieces.

Mismanagement of ANY of these 5 areas could set back my Mortgage progress, costing me time, undue worry and anxiety. So let’s get clear on these areas right now so you can create AAA credit rating!

1. <u>**Repayment History (35%):**</u>

   My repayment history equals about 35% of my overall credit score.

   For the love of all things sacred …I recommend going out of the way to make at least the minimum payment, and make it on time.

   Things happen in life. Even to the best of us …

   <u>My personal missed payment story:</u>

   I ordered a new credit card because the “tap payment feature” of my old VISA stopped working. God forbid I have to enter my pin when paying. However, I requested my credit card number remain the same.

   I thought my cell phone provider did not need to be updated with my new credit card information because I retained the same number.

   Well, my assumption was incorrect. The “auto debit” feature for my cell phone did not trigger for two months. I now have two missed cell phone payments in my credit history. This is not the end of the world, BUT my credit score reflects this event and there is recorded history of this happening.

   The moral here is, make at least the minimum payment on time and manage payment scheduling as best as possible.

2. <u>**Credit Utilization (30%):**</u>

My revolving credit trade lines (credit card and or personal line of credit etc) all have a maximum limit. Credit utilization references where my credit balances are, relative to my credit limit.

This has about a 30% overall impact on my credit score. The lower my credit utilization is, relative to my limit, the better that is for my overall credit score.

For example, if I have a $2,500 credit card limit and my balance is only $200 – the credit agencies like that.

I am using my credit, repaying it every month (and on time remember ☺) and have a relatively low balance. This is referred to as low utilization.

On the other hand, if the balance on that same credit card was $2,350 there is only a bit of credit room left on my credit card. My credit utilization is very high, near the maximum.

Now imagine if I have several credit instruments, all near the maximum credit utilization. The credit algorithm would lower my credit score due to this high utilization.

About 30% of my total credit score is determined based on my credit utilization.

3. **Length of credit history (15%):**

The longer my track record is of repaying my bills on time equals about 15% of my overall credit score.

Mortgage lenders like to at least a two-year credit repayment history to quickly approve a Mortgage application (I have contingency plans if this does not exist). This is why I recommend wisely cancelling credit cards.

Often, when families merge, Banking institutions also merge. Sometimes one spouse cancels their previous credit card(s) in the merger. Without proper planning this might erase well-deserved credit history.

A planned credit merger might mean establishing new credit at the new financial institution for several years, then canceling previous credit cards.

Again, the sooner I establish my credit (at least two trade lines) the thicker I am building my credit bureau, which reflects in a higher credit score.

I need to be aware of the length of history within my credit bureau when deciding to cancel credit trade lines.

4. **Types of credit (10%):**

   Lenders like to see I am managing and paying DIFFERENT types of credit.

   For example, if I have a credit card, line of credit, student loan or car payment, I have different trade lines AND am responsibly servicing different types of debt.

   This is responsible for about 10% of my credit score.

5. **New Credit (10%):**

   About 10% of my credit score is made up of my access to new credit. Specifically, I am referring to credit inquiries.

   This means if I am frequently applying for credit, in a short period of time (for whatever reason), this activity will affect my score by about 10%.

   In the vertical of Mortgage qualifying, a Bank or Mortgage Broker checking your credit is referred to as a *hard inquiry*. This type of credit inquiry accounts for about 10% of your overall score.

   Having multiple financial institutions or Mortgage Brokers check your credit, in a short amount of time, will negatively impact your score. I suggest you wisely choose WHO you are working with first, before proceeding down the path of WHAT the Mortgage product is etc. This will limit your exposure to undue multiple credit checks.

   Be aware at sporting events or at airports for those companies offering the lure of free giveaways for a new credit card. They collect personal information, give the person a gift, check their credit, and if applicable send them a credit card in the mail.

   You're giving that company permission to check your credit, which has an impact on your credit score. Just be aware!

Now I have credit established, and I understand what makes up my credit score; now how do I increase it?

How To Increase My Credit Score:

Now that we understand what makes up my credit score (above) I can leverage that information to increase my credit score!

Here's how:

A) **Increase my credit limit**. Stop. Read. This. Carefully. Extending credit limits, without personal discipline to withhold spending is a recipe for disaster.

   But this can quickly increase a persons credit score.

   We know that credit utilization is about 30% of the overall credit score. So increasing my credit limit will change the relationship to my credit balance and therefore reduce my credit utilization.

   Again, please heed this advice responsibly.

B) **Payment patience**. My generation of millennials might not like this. We want things now (ha)!!

   Once I have my balances being paid down, I need to continue making my payments on time.

   The more time that is between any of my missed payments or credit blemishes, the higher my credit score will trend.

C) **Lock it down**. I need to lock my credit down. No more hard credit inquires by Banks, credit card companies, telecoms, etc. (I can check my own credit which is referred to as a soft inquiry). Do not cancel any of my existing credit cards. Some times I am furious with my credit provider and make decisions while upset. Pause. Lock your credit down.

D) **Focused momentum**. While paying down debt, focus on the following in priority:

   a. **Outstanding debts**. If a debt is in collection, pay that down to $0 first.
   b. **Over limit**. Any debts that are over limit pay them below the maximum limit. The lower the balance of a credit card is, relative to the maximum limit, the more favourable that is for a credit score.
   c. **High interest**. Pay down the debts with highest interest next. This will help you save money.
   d. **Personal consolidation**. You might consider meeting with your bank branch about consolidating all of your high interest revolving credit debt into a lower interest personal loan. This will typically yield you a lower interest rate. The payment will be one of principal and interest, which might be higher than you're use to paying. Make sure you have budgeted is new payment accounted for in your monthly budget.

Conclusion:

Thank you for reading this credit report I created for you. The frame I look at marketing my services, to earn your business, is through relevant and educational material that adds value to your life.

I would like to personally invite you to scheduling an initial phone appointment with me to help plan your home purchase. My clients who engage me early in their search process end up with a knowledgeable and enjoyable overall Real Estate experience.

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