Understanding Your Credit Score

A credit score is a statistical formula that translates personal information from your credit report and other sources into a three-digit score. For example, when you fill out a loan application, pieces of information from the application along with information from your credit report will be used to compute a score that indicates to the lender the statistical probability that you will pay back the loan.

It is important to understand that a credit score is only one piece of your financial picture that a lender will use in making credit decisions. For example, in mortgage lending, the lender will take into account the property being purchased and the homeowner's equity. Each lender will have its own policies and your Mortgage Broker can help you understand these policies as they vary from lender to lender.

How do lenders use my score?
Your credit score is an important indicator of your creditworthiness. In general, the higher your score, the lower the probability that you will not pay back credit extended to you. And while many lenders use bureau scores to help them make lending decisions it is not the only factor.

Because your credit report is updated every day, your bureau score is recalculated continuously. So your credit score from a month ago is probably not the same score today.

What is used to calculate my score?

- Payment history - Indicates whether you have made your credit card and other payments on time. Payment History accounts for approximately 35% of your score.
- Amounts owed - Compares how much you owe to your credit limits with various lenders. This accounts for about 30% of your credit score.
- Length of time in file - Indicates how long you have had credit accounts about 15% of your score.
- New credit - Shows how often you are looking for new credit and how you handle accounts - about 10% of your score.
- Type of credit - Considers the type of loans you have - car loans, lines of credit, credit card balances - about 10% of your credit score.

*Note: Any Mortgage information that may appear in your credit report is not used to calculate your credit score.

Will inaccurate information in my credit report affect my credit score?
This will depend upon what information is wrong. If the inaccurate information is from Credit Information, Public Record and Collections sections of your credit report, your score will definitely be affected.

We encourage all consumers to request and review their credit report on a regular basis. By doing this, you can ensure that your report contains information that accurately reflects your credit history. You have the right to dispute any discrepancies by immediately notifying the credit reporting agency.

What can I do to improve my credit score?

- Pay all of your bills on time – even if it’s just the minimum payment. Paying late, or having your account sent to a collection agency has a negative impact on your credit score.
- Try not to run your balances up to your credit limit. Keeping your account Balances below 75% of your available credit may also help your score.
- Avoid applying for credit unless you have a genuine need for a new account. Too many inquiries in a short period of time can sometimes be interpreted as a sign that you are getting into difficulty.

How can I get a credit file started if I don't have one?
In order for the Beacon score to be calculated on a credit file, the file must contain 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. A credit report can be started with a department store card, or a secured (with a deposit) Visa card.