

## Your Credit Score Demystified

Your credit score is an assessment about your financial health at a specific point in time. It indicates the risk you represent to lenders and is used by them to determine whether or not to give you credit when you apply.

Your score is obtained from one or both of the credit bureaus, Equifax ([www.equifax.ca](http://www.equifax.ca)) and Trans Union ([www.transunion.ca](http://www.transunion.ca)).

The law requires that a borrower applying for an insured mortgage (required if more than 80% financing is needed) must have a minimum credit score of 600.

The following chart demonstrates how your credit score can affect the interest rate for which you may qualify for an automobile loan and what it means in terms of monthly payments and total amount of interest paid. The higher your credit score the lower your interest rate, monthly payment and total interest paid.

Credit Score	680+	640-679	580-639	< 579
Loan Amount	\$15,000.00	\$15,000.00	\$15,000.00	\$15,000.00
Term of Loan (Months)	48	48	48	48
Interest Rate	8.5%	16.0%	21.0%	29.0%
Monthly Payment	\$ 369.72	\$425.10	\$464.49	\$531.40
Total Paid	\$ 17,746.56	\$20,404.80	\$22,295.52	\$25,507.20
Less amount borrowed	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00
Total Interest Paid over Term	\$2,746.56	\$5,404.80	\$7,295.52	\$10,507.20

*The information above is a sample of many lenders guidelines as of February 2009 for auto financing. Rates and qualification requirements are subject to change without notice at any time at lenders sole discretion and is beyond the control of BDO Dunwoody New Beginnings.*

Everyone should be aware of their credit score, but it is also important to know how your score is determined. There are also some basic things everyone should do to achieve and maintain good credit.

## Understanding Credit Scoring

- **What is the credit score range?** Generally, credit scores range between 350 and 900.
- **What is a good credit score?** A score of 680 or higher depending on the lender and type of credit applied for. The score is also often used to determine the interest rate you will pay.
- **What makes up a credit score?** The breakdown of a credit score is as follows:
  - 35%—Payment history. Reflects late payments, collections, proposal or bankruptcy
  - 30%—Amounts owed. Percentage of balance owed compared to limits
  - 15%—Length of credit history. How long have accounts been open and used
  - 10%—Types of credit. Revolving credit (cards/lines of credit) versus installment loans
  - 10%—New credit. Weighting of credit obtained within past 2 yrs to total credit

- **What balance should I carry on my credit cards to maximize my credit score?** If you do carry a balance, it should be no more than 50% of the card's limit.
- **Do my mortgage payments help my credit score?** In Canada mortgage payment history is NOT reported to the credit bureaus, thus mortgages do NOT help build your credit score.
- **How do third party inquiries affect your credit score?** An inquiry can affect your score anywhere from 2 to 30+ points, depending on other factors in your credit report.
- **Is your credit score affected if you obtain your own personal credit report?** No.

Regardless of what your current credit profile and score looks like, BDO's New Beginnings Program can help you improve it. Contact us today for your free initial consultation.



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