

# Key to Success: Understanding Credit Reports

## What is a Credit Score?

A credit score is a numeric “snapshot” of your credit risk at a particular point in time. It indicates the credit risk associated with the corresponding credit application.

**Credit scores are used by lenders/insurers to evaluate potential future default risk**

\*Source: TransUnion and Financial Consumer Agency of Canada

## Credit Bureau Quiz

What is the range of credit scores?

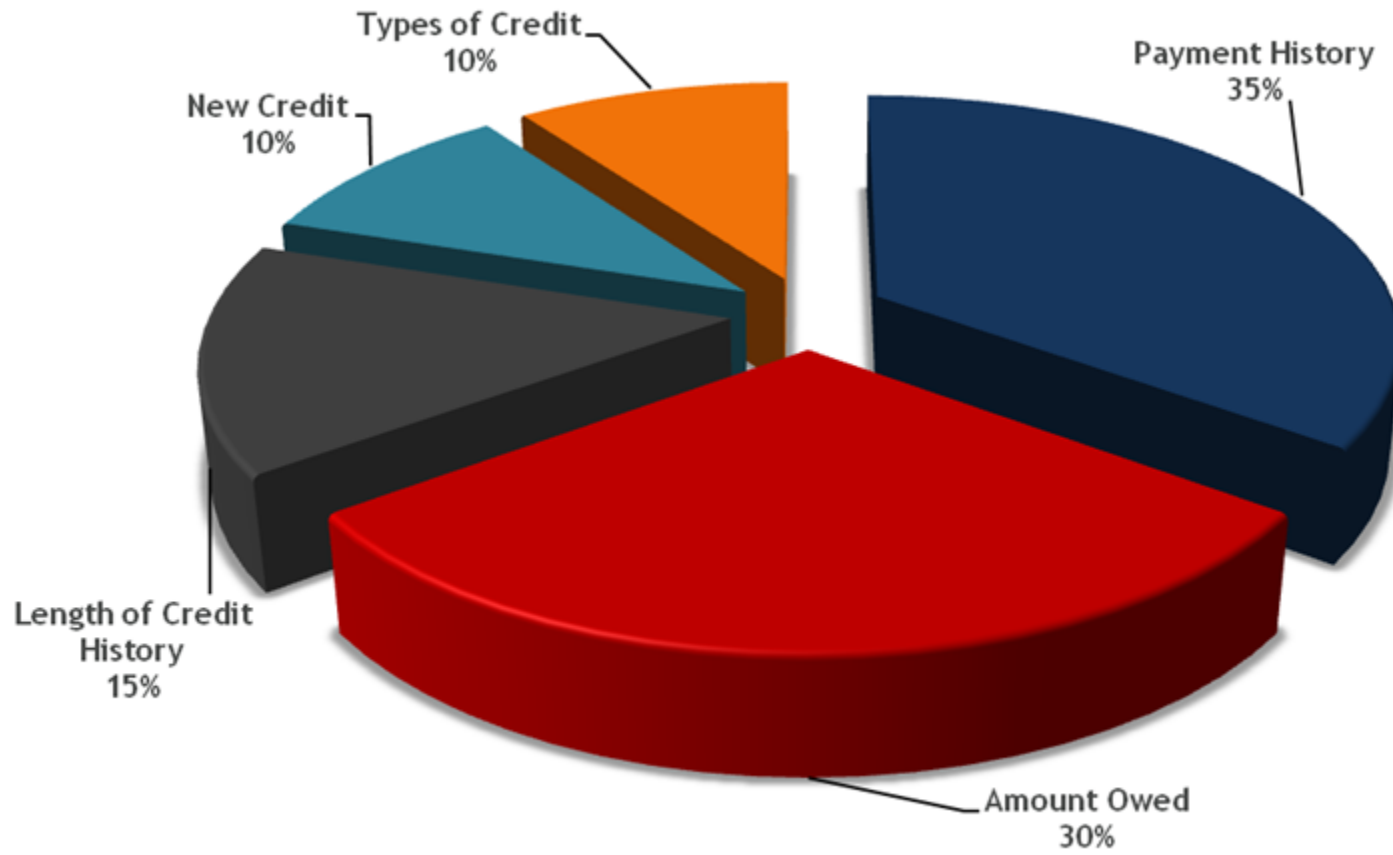
**300-900**

Who are the two providers of credit bureaus in Canada?

- 1. Equifax**
- 2. TransUnion**



# Elements of a Credit Score



Source: Financial Consumer Agency of Canada, Equifax Canada, TransUnion Canada

## Ratings - Types of Accounts

O - Open Account (30 - 90 Days)

R - Revolving (open-ended account)

I - Installment (fixed number of payments)

C - Line of Credit

M - Mortgage

## Ratings - Manner of Payment

- 0 - Too new to rate
- 1 - Pays within 30 days (of the statement date)
- 2 - Pays >30 days, but <60 days
- 3 - Pays >60 days, but <90 days
- 4 - Pays >90 days, but <120 days
- 5 - >120 days overdue
- 7 - Arranged payment plan
- 8 - Repossession
- 9 - Bad debt, collection

## Credit Bureau Checklist

- ✓ Client name
- ✓ Address and Employment histories
- ✓ AKA names
- ✓ Birth Date
- ✓ Inquiries

# Credit Bureau Checklist

- ✓ Public records
  - Bankruptcy
  - Collection
  - Judgment
  - Secured record/loan
  
- ✓ Credit History
  
- ✓ Credit Score

## Factors that Lower Your Score

1. Too many consumer finance company accounts
2. Account balances are too high
3. Not enough recent revolving account information
4. Loan balances are too high in comparison with loan amounts

Source: "Understanding your credit score handbook"; Equifax Canada

## How to Improve a Customer's Credit

- Pay or satisfy all outstanding collections and judgments
- Bring all trades up-to-date and within limit
- Establish a minimum of 2-3 trades with good repayment history for 24 months
  - Trades should be a mix of credit cards, installment loans, department cards
  - Illustrate use and repayment on a regular basis
- Limit credit seeking
- Limit the number of open trades and balances

**TIP: Keep balances *below 50%* of the credit limit to assist in score recovery**

## Summary

- A credit score is a key factor used to predict future default risk
- Five main elements of a credit score
- Credit bureau checklist
- Comments - include all relevant information!

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