

# SPECIAL REPORT

## Your Credit Report

**As your  
mortgage broker;  
my only job  
is looking out for  
your best interest.**



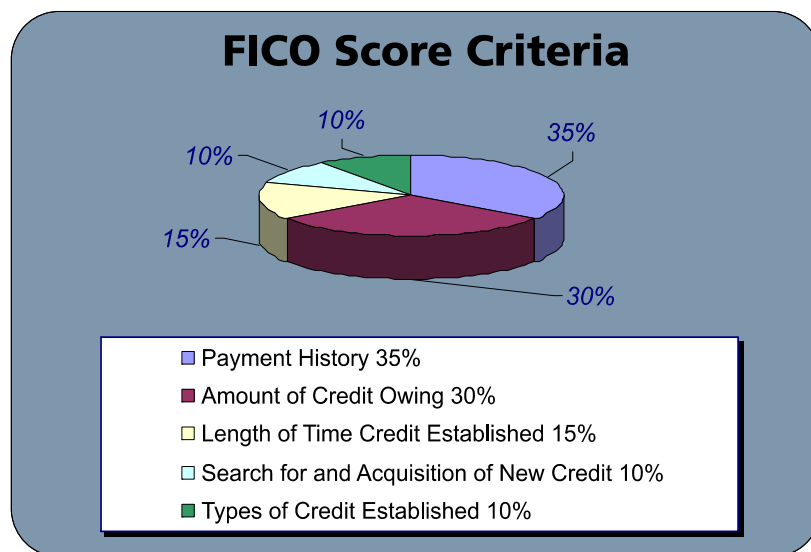
## Your Credit Report

### Your Credit Score

#### What is a credit score?

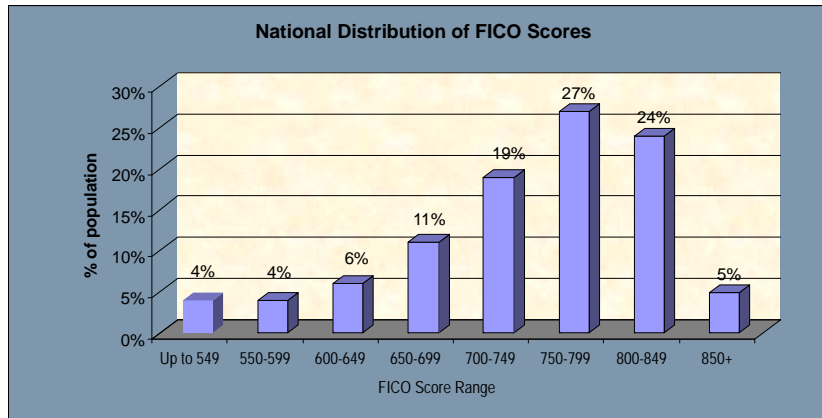
Your credit score and rating are produced by a credit rating agency like Equifax or TransUnion. Your credit score is also referred to as a BEACON or FICO Score as the mathematical formulas behind your score were created by Fair Isaac & Company (FICO). This Credit Score is used by most lenders to help them decide whether or not you're a good credit risk. The credit rating agency crunches the numbers from your credit report, and spits out a score somewhere between 300 and 850. A low score says you're a bad credit risk, a score of 750 or higher puts you in the driver's seat.

Here are the factors considered when calculating your BEACON score and an estimate of how heavily each factor might be weighted.

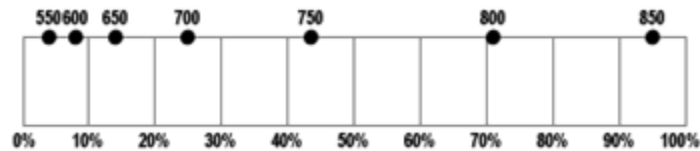


- Past payment history (35 percent): bankruptcies, late payments, past due accounts and wage attachments
- Amount of credit owing (30 percent): amount owed on accounts, proportion of balances to total credit limits
- Length of time credit established (15 percent): time since accounts opened, time since account activity
- Search for and acquisition of new credit (10 percent): number of recent credit inquiries, number of recently opened accounts
- Types of credit established (10 percent): number of various types of accounts (credit cards, retail accounts, mortgage).

Below you will find the distributions of Credit Score for Canadians and a brief explanation of the factors considered when calculating your credit score.

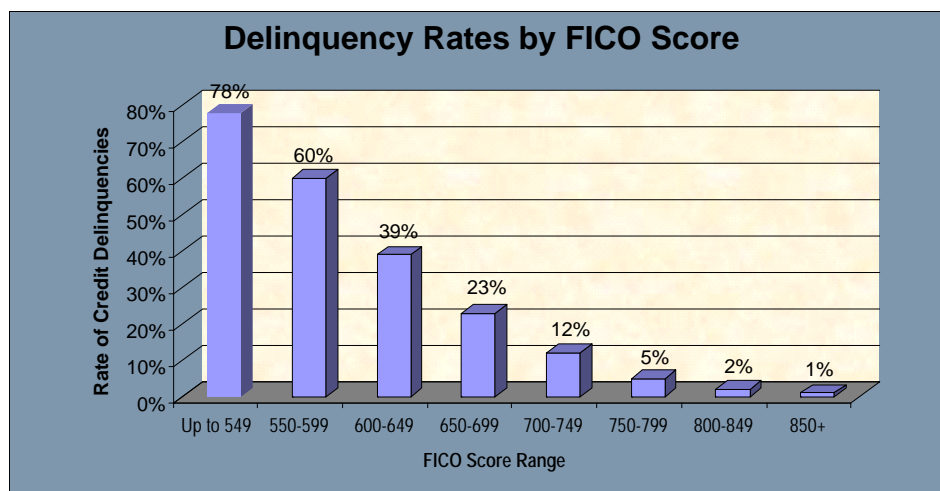


Or, seen a different way:



**Understanding the graph:** This chart shows the percentage of people who score in specific BEACON score ranges. For example, about 4% of Canadian consumers have a BEACON score between **550** and **599**. A score of **760** places you in the **750-799** range, along with **27%** of the total population. (Note that the score ranges shown above are provided for your information, but they do not necessarily correspond to any particular lender's policies for extending credit.)

**How Lenders See You:**



**A summary of factors that affect your credit score:**

The BEACON score is calculated based on the information contained in your credit history. While knowing your actual score is a good start, understanding the key factors affecting your BEACON score is much more important. These factors will provide you direction on how you can increase or maintain your BEACON score over time.

The negative factors listed below are reasons why your BEACON score might not be very high. Your focus on these factors will help you to raise your BEACON score over time. These negative factors are provided in order of impact to your score; the first factor listed indicates where you stand to gain the most points over time and so on.

**You have recently been seeking credit as reflected by the number of inquiries posted on your credit file in the last 12 months**

Research shows that consumers who are seeking new credit accounts are riskier than consumers who are not seeking credit. Inquiries are the only information lenders have that indicates a consumer is actively seeking credit.



There are different types of inquiries that reside on your credit report. The score only considers those inquiries that were posted as a result of you applying for credit. Other types of inquiries, such as account review inquiries (where a lender with whom you have an account has received your credit report) or consumer disclosure inquiries (where you have requested a copy of your own report) are not considered by the score.

The scores can identify “rate shopping” so that one credit search leading to multiple inquiries being reported is usually only counted as a single inquiry. For most consumers, the presence of a few inquiries on your credit file has a limited impact on BEACON scores.

A common misperception is that every single inquiry will drop your score a certain number of points. This is not true. The impact of inquiries on your score will vary, depending on your overall credit profile. Inquiries will usually have a larger impact on the score for consumers with limited credit history and on consumers with previous late payments. The most prudent action to raise your score over time is to apply for credit only when you need it. As time passes the age of your most recent inquiry will increase and your score will rise as a result, provided you do not apply for additional credit in the meantime. Our best recommendation – apply for credit only when you need it.

**The length of time your revolving or non-revolving accounts have been established is too short**

This reason is based on the age of the revolving or non-revolving charge accounts on your credit report. A revolving account such as Visa, MasterCard, or retail store card allows consumers to make a minimum monthly payment and roll or “revolve” the re-



remainder of their balance to the next month. Non-revolving accounts such as American Express and Diners Club must be paid off in full each month.

Research shows that consumers with longer credit histories have better repayment risk than those with shorter credit histories. Also, consumers who frequently open new accounts have greater repayment risk than those who do not. It is a good idea to only

apply for credit when you really need it. Meanwhile, maintain low-to-moderate balances and be sure to make your payments on time. Your score should improve as your revolving credit history ages.

### **The amount owed on your accounts is too high**

The score measures how much you owe on the accounts (revolving, non-revolving, and installment) that are listed on your credit report. Research reveals that consumers owing larger amounts on their credit accounts have greater future repayment risk than those who owe less. (For credit cards, the total outstanding balance on your last statement is generally the amount that will show in your credit report. Note that even if you pay off your credit cards in full each and every month, your credit report may show the last billing statement balance on those accounts.) Paying off your debts and maintaining low balances will help to improve your credit score. Consolidating or moving your debt around from one account to another will usually not, however, raise your score, since the same amount is still owed.

### **Proportion of loan balances to original loan amounts is too high**



Simply having installment loans and owing money on them does not mean you are a high-risk borrower. To the contrary, paying down installment loans is a good sign that you are able and willing to manage and repay debt, and evidence of successful repayment weighs favorably on your credit rating. The BEACON score examines many aspects of your current installment loan and revolving balances. One measurement is to compare outstanding installment balances against the original loan amounts. Generally, the closer the loans are to being fully paid off, the better the score. Compared to other measurements of indebtedness, however, this has limited influence on the BEACON score. Paying down installment loans on a timely basis generally reflects well on your credit score. But if you want to improve your score, one way to do it is to try to pay the loans, down as quickly as you can.



## Why does CBM offer this report free of charge?

### *Why do we offer this report free of charge?*

We are offering these helpful tips free of charge because we want to be your mortgage advisors. We offer more than simply a loan. We will personally advise you on how to use and apply the principles contained in this report.

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*Lance Cook*

President, CBM

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