

# A Credit Makeover

IT'S POSSIBLE TO MOVE FROM  
PAST CREDIT MISTAKES TO  
HOME OWNERSHIP.

BY LEE ARSCOTT

If Bijan Nagji knew then what he now knows about credit, the home buying process might have gone a little smoother for him. Nagji, a young Toronto professional, recently purchased a home with his wife in the GTA. But before attempting to secure a mortgage, he had a stubborn blemish to clear up on his credit report.

"When you start college or university, the first thing they do during orientation is try to set you up with a credit card," he explains. Eventually, he ran into problems with store credit and his student loans went into default. Since then, he has spent years repairing his relationship with creditors, which he says all could have been avoided by making his payments on time.

Nagji believes that many young consumers don't realize that whenever they make a late payment, creditors keep it on file. "It's very important that even if you're only going to make the minimum payment, you don't pay it late," he advises.





Credit professionals offer the same recommendation and, in fact, the Ontario Ministry of Government and Consumer Services goes further by warning consumers to "make sure the payments will leave you with enough money to meet other necessary expenses."

Maintaining good credit allows you to achieve personal and financial goals, whether it is a major purchase or renting an apartment, says Tammy Berry, Certified Credit Professional (CCP) and a member of the board of Canadian Credit Institute Educational Foundation (CCIEF).

"Charging purchases to a credit card or taking out a loan translates into a minimum monthly payment assigned. As the consumer makes these monthly payments, the credit rating is built by recording the timeliness of the payment."

"The Canadian Credit Bureau records what funds are available, owed and paid back in a timely or late manner," Berry continues. Trans Union and Equifax are two primary Canadian agencies who consolidate data monthly to share with potential lenders, "and all of this repayment activity and dollars on loan translate into a credit score," she explains.

Penny Boundy, a mortgage specialist with RBC, suggests checking your credit rating periodically. In Canada, a numeric value is assigned to a client's credit score. "If your score is below 680, you're probably going to have a problem getting a mortgage. Most people are in the 750 to 800 range, and if you're over 800, it's quite exceptional."

The two main things that might cause one person's credit to outshine another's is "variety" and "length of time established," says Boundy. "Someone who's only had a Royal Bank Visa for the last two years might have a pretty good score of 760; whereas someone who's had three cards and looked after them well is showing more diversification, so their credit scores will likely be higher," she says.

According to Boundy there are three vital areas banks look at when they pre-approve clients for a mortgage. "First is your past credit history, second is your debt servicing, and third is your job

stability and income," she explains, "and credit is just as important as the other two." When borrowing money, the people lending the money want to make sure it's going to be paid back in a timely manner: "how you've conducted yourself in the past is going to be a good indication of how you'll conduct yourself in the future."

If you are trying to recover from a period of bad credit, the best way is to start out small, recommends Berry. "Once you are able to obtain a credit card or a loan for a minimal amount, be sure to pay at least the minimum required monthly payment each month on time. Each month as the payments are recorded and automatically reported to the Credit Bureau, you will begin the journey to establishing a good credit rating," she explains.

Fortunately, Boundy says, there is hope for borrowers like Nagji who have defaulted on student loans. In fact, once you have re-established your credit and are working, it is not unheard of for a bank, most likely one not involved in the loss, to take a chance on you. "But if there happened to be a collection item, and a bank had money written off, they're not going to have an appetite for your business in the future," she cautions.

Despite his past credit mistakes, Nagji and his wife obtained their mortgage, moved into their home and are now in the decorating phase of home ownership. Looking back on his past experience, he says that today, there is little excuse for consumers to slack on their bill payments. "It's even easier now with the computer era," he says. "I check all my transactions online, and we have formed the habit of paying those bills right when they accrue." RH&C

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