

# **Your Personal Guide to Understanding Credit and Your FICO (Beacon) Score**

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## What is a FICO (beacon) Score?

A FICO score (beacon score is the terminology that us in the financial industry refer to it as) is a score that tells a lender or creditor whether or not you are a good, average or bad credit risk. The items that are involved in coming to a score may surprise you. They will consist of:

- ✓ How many inquiries are on your account
- ✓ How many times you have been late on paying your accounts
- ✓ How many credit trades you have
- ✓ How much of your limits you have outstanding
- ✓ Whether or not you have had collections, judgments, or a bankruptcy showing on your file
- ✓ How 'new' your trades are

FICO scores range from 400 – 900. The average score being about 680+. Usually lenders will loan to people with 600+. We usually approach Alternative or “B” lenders for people with ‘bruises’, people who are under 600. The interest rates are still competitive in today’s market.

### Bad and Bruised Credit

- ✓ Credit Cards
- ✓ Late payments
- ✓ Non-Payments
- ✓ Collections
- ✓ Judgments

Most people are familiar with the above type of situation. These are the situations that cause people to get into trouble, and think that they will never be able to qualify for a mortgage. This is not a good situation, but there are ways to fix the damage and start on a new road to a good rating.

### Repairing the Damage

There are specific ways in which you can fix the prior damage to your credit. If you follow these guidelines, you will repair the damage and be on your way to a great rating again.

- ✓ Make Payment arrangements with the creditor, bank or collection agency
- ✓ Keep all proof that you paid the debt off, create a credit file at your home and keep records of any correspondence and any paperwork between you and the creditor/lender
- ✓ After the debt is paid as agreed, you may be able to apply at your bank for a new credit card, or a secured card – if your bank will still not give you either, then I will provide you with a Home Trust Secured Visa application, and they WILL approve you, guaranteed

### Bankruptcy or Consumer Proposal (also known as an Orderly Payment of Debt)

If you have an amount of debt that you know will take years to pay down, and you are suffering mentally and emotionally due to the load, you should consider filing for bankruptcy.

If you are considering seeking a credit counselor to consider an orderly payment of debt, there are some things you need to know that your counselor will not always tell you. If you file for bankruptcy, it generally takes about 9 months until you are discharged (free of any agreement between you and your creditors). Once you are discharged, you can begin rebuilding your credit immediately by way of a secured credit card, and department store cards. Within the next 12 months, you should have enough re-established credit to qualify for a mortgage again!

### Consumer Proposal

Consumer proposal may take many years to pay off the agreed upon debts. Lenders and creditors consider someone who enters into an OPD “Orderly Payment of Debt” more of a risk than the person who has filed for bankruptcy. You will not be able to begin rebuilding your credit until 2 years after you have finished paying off your OPD. An OPD takes anywhere from 3 – 7 years to pay off, and you will encounter great difficulty in

finding a lender to offer you a mortgage for at least 6 years from the beginning of your OPD.

### Using your New Credit Wisely

Secured credit cards can be acquired by going either to your personal banker, or to other lenders. **MAKE** sure that you get a secured VISA or Master Card. You do not want to mistake a Capital One card for a Visa or MC. A Capital One card will not enable you to build your credit as fast.

Once you have managed to get a credit card again, you must do specific things to maintain and grow an optimal FICO score rating that will make you desirable to lenders. If you follow these specific steps, you will be well on your way to the freedoms, and privilege that comes with getting and keeping a good credit rating.

### Tips and Tricks

- ✓ NEVER use more than 75% of your allowable limit
- ✓ Always pay MORE than the minimum monthly payment
- ✓ Do not apply for multiple credit cards or loans within a six month period, the amount of inquiries will affect your FICO score negatively
- ✓ DO NOT go over your limit, not even by \$1.00, to do so is FICO score suicide!! Your score will drop well below what is acceptable
- ✓ Do not miss a payment by even 1 day, this is result in an R2 or I2 rating, which will affect your score negatively
- ✓ When shopping for mortgages, always enlist the services of a reputable mortgage specialist, who can do one inquiry on your credit report and use it to get an approval from multiple lenders
- ✓ When shopping for a car, be very aware of what you are signing prior to a test drive, they usually request a credit bureau in small print, which can (and has) resulted in multiple inquiries from many dealerships over one weekend

## Equifax

Always contact Equifax twice a year to view a copy of your credit report, you are entitled to one free report annually.

To avoid identity theft or erroneously reported information that could result in hardship getting approvals from creditors. Make sure that your current information is being reported accurately, i.e. address, employment information, birthday, etc.

*“How can I correct an inaccuracy in my Equifax credit file?”*

First you will need to complete a Consumer Credit Report Update Form. Once complete, begin by contacting Equifax.

Telephone Equifax at 1.800.465.7166 between 8:00 am and 5:00 pm Eastern Time.

Write to them at : Equifax Canada Inc. Consumer Relations Department, Box 190 Jean Talon Station, Montreal, Quebec H1S 2Z2. Send an email request to : [consumer.relations@equifax.com](mailto:consumer.relations@equifax.com)

To purchase a copy of your credit file online : [www.equifax.ca](http://www.equifax.ca)

All the very best to you!

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