Building Your Credit

Actual errors excluded, there is no such thing as a magic fix for a damaged credit rating. There are steps that can be taken to improve a credit rating but it takes time and dedication.

Credit Repair Agencies

Internet, television, newspapers… advertisements for credit repair agencies seem to be everywhere. These companies all make similar claims:

- **Erase Your Bad Debt Today**
- **Credit Secrets, How to Erase Bad Debt…**
- **Smash Your Debt Forever !**
- **Clean Up Your Credit Guaranteed!**

For a fee, companies will promise to clean up your credit report to enable you to start borrowing again, get insurance, or apply for a job. Save yourself some time and money by disregarding all of these ads. There is nothing legal that any of these companies can do for you that you can not do yourself for free!

Any valid information on your credit report is there for six years from the date of last activity before it will fall off (be removed). Should you have incorrect information on your credit report, you will need to request that the credit reporting agency launch an investigation. Information on investigating errors on your credit report can be obtained from either of these websites: www.transunion.ca or www.equifax.ca.

Secured Credit Cards

A secured credit card can be an excellent way to build or rebuild a credit rating. When someone applies for a secured credit card, they're required to deposit a predetermined amount of money (usually $250.00 - $500.00) with the financial institution they are applying through. The amount that is deposited becomes the credit limit on the new credit card (MasterCard or Visa). By making regular payments over a period of time, the lender may increase the credit limit or return the initial security deposit.

Retail Credit Cards

It is sometimes possible to obtain a retail card even though you have been turned down for a major credit card (Visa or MasterCard). Keep in mind that retail cards typically carry a much higher rate of interest and you should pay off the balance in full each month. After using a retail card responsibly for a period of time (a year or more) reapply for a major credit card. With a successful application, cancel the retail card and cut it up. Remember, you only need one major credit card!

Borrowing to Build

When borrowing to build your credit it is wise to choose smaller loan products (the lender will view them as lower risk). Getting a loan for either a Registered Retirement Savings Plan (RRSP) or a Registered Education Savings Plan (RESP) is a good place to start. These loans are generally for a short period of time (until an income tax return comes in) and the money stays with the lender (providing them security).

Saving for future goals such as retirement or for a child's education will also show the lender that you are exercising good money habits. This will help with your future borrowing because you are increasing your assets and developing a track record of not living a paycheque to paycheque lifestyle.

Piggy-Backing on a Friend

Most of us have a parent, friend or relative that has a good credit rating. **Depending on the creditor**, it is possible to adopt some of their good credit status. This method works by having someone you know contact their credit card company and place you on their card(s) as an authorized user.

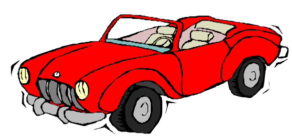
It is essential that both people in this scenario trust each other because **this practise can backfire very easily** and has the potential to destroy relationships. The fist thing you will want to do is to **make sure that the credit card company you are contacting will report information to both the primary and secondary card holders credit reports.**

After the account is opened, the secondary card holder will be sent a credit card. This card doesn't need to be used in order to reflect the good credit rating of the primary card holder. Your credit report should list an open account that reflects your friend's/relative's positive history. Once you are able to start getting credit on your own, you can have your friend/relative remove you from their account.

Applying for a Loan

A loan is a long term commitment that you want to be sure you can afford and something you need to prove to the lender that you can afford. A key to both of these factors is by saving up a down payment.

A car loan is a perfect example of a reasonable loan. Start with how you plan on achieving the goal of a new or used car. You can normally identify this type of need/want at least a year in advance of your purchase. The key is to act on the goal immediately by beginning to save up for the down payment. You should decide what you are willing to spend. Lets say you want to spend $10,000. With taxes you will need $11,500. Now decide on how much you can afford for a monthly payment. Lets say you can afford $250 per month; if you save that for one year you will have $3,000 for a down payment. Now you only have to borrow $8,500 when you purchase the vehicle. If you keep your payment the same at $250 you can pay the loan off in 39 months and you would save over $800 in interest from a typical 4 year loan (assuming an 8% interest rate).



This strategy will help you get the loan because it:

- shows you are responsible enough to save the money
- reduces the amount you have to borrow which increase your chances on getting the loan
- lowers the risk of the creditor because they now have equity in the vehicle, (the vehicle cost is $10,000 but you are only borrowing $8,500).

This strategy **benefits you too** because you will be sure that you can afford the $250 monthly payment. In case of an unexpected emergency, you can always sell the car and pay off the loan. Without the down payment, between taxes and depreciation, you could sell the car but still owe money on the loan. You would be locked into the same monthly payment until the loan was paid out in full.