CREDIT BOOKLET

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What is a Credit Score and Why is it Important?

You may be wondering why you have been instantly approved for a credit card, or perhaps you have been denied a loan. How does a bank determine if they should lend you money? Why do some people receive more credit than others? Credit can seem like a complicated concept, but in it's simplest form, your credit score is a number assigned to you based on the information in your credit report. It indicates how well you have managed your credit in the past and whether or not it would be risky for a lender to lend you money now.

Having a good credit score is important because not only does it indicate whether or not a lender should consider lending you money, it also helps secure lower interest rates which could end up saving you thousands of dollars long term. In a nutshell, bad credit = high interest rates, good credit = lower interest rates. Lenders are taking on a higher risk by lending someone with a poor credit history more money. The chances that they will not receive their money back is significantly higher. Therefore, they charge high interest rates to recoup their money back faster. Lenders view good or excellent credit scores in the opposite way. Now that's not to say that someone with poor credit will not make every single payment on time, and someone with excellent credit will not fall behind and miss payments. The lender simply looks at the trend over time (your score) and predicts what your repayment ability will look like.

Let's dive further!

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What is a "Good" Credit Score?

Excellent

760-900

If you have a score in this range, congratulations! A score this high tells lenders that you are an exceptional borrower and in turn, you will receive the lowest interest rates the lender is willing to offer.

Very Good

725-759

A score in this range tells lenders that you are a responsible borrower and the lender will likely give a great interest rate in return.

Good

660-724

A score in this range is often considered "good" by most lenders and the consumer will llikely receive an approval with a reasonable interest rate.

Fair

560-659

A score in this range tells lenders that this consumer is somewhat of a risk. Some lenders may approve this borrower for credit products but they will have a higher interest rate.

Poor

300-559

A score in this range tells lenders that this consumer is a very risky borrower. They are unlikely to be given new credit products unless it comes with an astronomical interest rate.

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IMPORTANT THINGS TO KNOW ABOUT CREDIT

1 Credit Isn't Cash or a Cash Substitute

Credit is so easy to use and you must remember it is not an extension of your wallet. Be sure not to spend money you cannot afford to pay back!

2 Having Good Credit is Important

Credit is used for many things, including buying or renting a house, utilities, cell phones and more. A poor credit score restricts your ability to obtain these things when needed. Always maintain a good score to ensure you have options when you need them.

3 Your Credit Score Can Change Quickly

Credit takes time to build, but not nearly as much time to damage. Be mindful when missing payments or exceeding your credit limit, as those are quick ways to drop the score you have worked hard to achieve.

4 Not all Credit Cards are Created Equal

Some credit cards come with cash back or rewards. Some promise lower interest rates or are geared toward those with damaged credit. Come up with a list of items you would like out of a credit card before applying to be sure you are getting a card that works best for your unique situation.

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5 Lenders and Creditors Share Information About You

All lenders share information about you to credit bureaus. This information is collected by a third-party agency and is used to credit your credit report. That information is shared with other businesses when you apply for new credit. This allows businesses to determine whether or not they should do business with you and what their risk will be. As mentioned earlier, this will in turn determine the interest rate you are offered.

6 Debt Can Happen to Anyone at Any Time

It is easy to accumulate debt that you are unable to pay back. Emergencies happen and people turn to credit to help their situation. Try to save an emergency fund of at least $2000 as a cushion for emergencies that come up. Also ensuring that you always use credit responsibly will help prevent occasional financial emergencies from destroying your credit.

7 Closing Credit Products Will Hurt Your Score

You may be tempted to close credit cards with lenders that did not accommodate you with a request or perhaps you are just dissatisfied with the company. As tempting as it may be, it could impact your score greatly with little impact to the creditor. Be very cautious when closing credit accounts.

8 You Can Review Your Credit Report and Check Your Score

In the age of the internet, it is very easy to monitor your credit score on a monthly basis for free, with sites like CreditKarma, Borrowell or even through your bank's online banking portal. This is considered a "soft" inquiry and will NOT impact your score. You are also able to request your full credit report from TransUnion and Equifax. There may be a charge to use those services.

9 You Can Request Lower Interest Rates

Credit card companies rarely reach out to offer you a lower rate, but that doesn't mean lower rates don't exist! If you have a great history with them, it doesn't hurt to call your lender and ask for them to reduce your rate. Many will oblige!

10 You Can Have Too Many Credit Products

It often seems that once you receive a new credit card, many other lenders will want to offer you a credit card as well. It is very easy to accumulate too many credit cards and in turn, makes it very difficult to keep up with monthly payments. There is also the added impact to your credit score. Each "hard" inquiry will reduce your score. Be mindful of opening too many cards within a short period of time.

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How is Your Credit Score Calculated?

30%
Utilization

15%
Length of Credit History

10%
New Credit Accounts & Applications

35%
Repayment History

10%
Credit Mix

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How is Your Credit Score Calculated?

REPAYMENT HISTORY (35%)

Always pay at least the minimum due on your credit cards by the due date. Late payments impact your score heavily.

LENGTH OF CREDIT HISTORY (15%)

The longer you can show a lender your creditworthiness, the better. This gives the lender a longer timeframe to see your credit history. When possible, do not close old credit cards as they help your score.

CREDIT MIX (10%)

Having a variety of credit products (IE credit cards, loans, a mortgage etc.) positively impacts your score as long as your accounts are in good standing.

UTILIZATION (30%)

Utilization is the amount you owe versus what is available to you. For example, if you have $1000 in available credit but you have used $900, your credit utilization is at 90%. Always aim to keep your utilization at 50% or less.

NEW CREDIT ACCOUNTS & APPLICATIONS (10%)

Each time a lender checks your score, this is considered a "hard" inquiry and impacts your score. When you check your credit through credit monitoring apps, it is considered a "soft" inquiry and does not impact your score. If you have many "hard" inquiries in a short period of time, a lender may perceive this as you are having financial difficulties and then consider you high risk.

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USING CREDIT TO IMPROVE YOUR CREDIT SCORE

MAKE CREDIT CARD PAYMENTS ON TIME

It is important to pay all bills by or before their due dates. Payment history accounts for 35% of your credit score. Set up pre-authorized payments where possible to eliminate the possibility of forgetting to make a payment.

KEEP SMALL BALANCES

Credit utilization accounts for 30% of your credit score. Keeping balances under 30% of available credit is best to keep you score from being impacted. The lower the balance, the better.

INCREASE SPENDING LIMIT

By increasing your spending limit and maintaining a low balance, your credit score will reflect the lower utilization ratio. *Use caution - if you think having a higher limit will tempt you to overspend, refrain from increasing your limit.

KEEP YOUR CARD OPEN FOR A LONG TIME

Length of credit history accounts for 15% of your credit score. If your card has no annual fee, consider keeping it open. The longer you can demonstrate responsible use of credit, the better your score will be!

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QUICK BUDGETING TIPS

USE CREDIT WISELY

Only use credit on purchases you can pay off quickly. Lingering balances accumulate interest quickly and can impact your credit score.

START A SAVINGS ACCOUNT

If you don't have a savings account already, open one! Set a realistic savings goal and stick to it! If an emergency pops up, it'll be a stress reliever knowing you don't have to use credit.

DON'T WASTE MONEY

Be mindful of your spending habits. Make your morning coffee at home or pack your lunch for work each day. You'll be surprised at how much money you will save!

KNOW WHAT YOU MAKE

Review the money in your bank account carefully. Keep track of deposits and withdrawals. Determine a monthly average and budget accordingly.

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SNOWBALL DEBT REPAYMENT METHOD

When you have a great deal of debt, it can seem like a never ending cycle! Where do you start? When you have many balances with different interest rates, it can be confusing. Below you will find a simple debt repayment strategy that really works! The idea is to pay off your debts in order of smallest to largest so that you can gain momentum. As each one is eliminated, your efforts pick up speed and grow! When the smallest debt is paid in full, you roll the money you were paying on that debt into the next smallest and so on until you have crushed them all!

1 ORGANIZE YOUR DEBTS

List all your debts from smallest to largest. Include the minimum monthly payments and the interest rates.

2 STRATEGIZE PAYMENTS

Make only minimum payments on all debts, except the smallest, which you will tackle as aggressively as possible until it is paid off.

3 START ROLLING

Once the smallest is paid off, take what you were paying towards it and roll it into the next debt you want to tackle. Continue to make the minimum payments on all outstanding debts.

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Example of the Snowball Method in Practice

$500 credit card ($50 min. payment)
$1800 credit card ($70 min. payment)
$4500 student loan ($55 min. payment)
$12,000 car loan ($280 min. payment)

Credit Card Balance: $500 Minimum Payment: $50 Interest Rate: $21.0%	**Credit Card** Balance: $1800 Minimum Payment: $70 Interest Rate: 18.0%	**Student Loan** Balance: $4500 Minimum Payment: $55 Interest Rate: 5.50%	**Car Loan** Balance: $12,000 Minimum Payment: $280 Interest Rate: 1.90%

Month	Payment	Balance	Payment	Balance	Payment	Balance	Payment	Balance
1	$450.00	$50.00	$70.00	$1,730.00	$55.00	$4,445.00	$280.00	$11,720.00
2	$50.00	**PAID OFF**	$470.00	$1,278.90	$55.00	$4,410.12	$280.00	$11,458.11
3			$520.00	$770.28	$55.00	$4,375.08	$280.00	$11,195.81
4			$520.00	$254.04	$55.00	$4,339.88	$280.00	$10,933.10
5			$254.04	**PAID OFF**	$320.96	$4,037.34	$280.00	$10,669.96
6					$575.00	$2,916.52	$280.00	$10,406.41
7					$575.00	$2,352.25	$280.00	$10,142.45
8					$575.00	$1,785.39	$280.00	$9,878.06
9					$575.00	$1,215.94	$280.00	$9,613.26
10					$575.00	$643.88	$280.00	$9,348.04
11					$575.00	$68.88	$280.00	$9,082.39
12					$575.00	$69.19	$280.00	$8,816.33
13					$69.19	**PAID OFF**	$785.81	$8,043.24
14							$855.00	$7,199.62
15							$855.00	$6,345.00
16							$855.00	$5,508.38
17							$855.00	$4,660.74
18							$855.00	$3,811.77
19							$855.00	$2,961.45
20							$855.00	$2,109.79
21							$855.00	$1,256.77
22							$855.00	$402.41
23							$402.41	**PAID OFF**

Congratulations! Thanks to your hard work, you have paid off $18,000 in monthly debt in only 23 months! You now have $855.00 back into your budget ($400 debt payment plus $455 you were making in the four monthly payments).

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BUDGET TIPS

- Create a Price Book - Track prices of groceries and household products you regularly buy. Then check your book and stock pile when prices are good.
- Increase Your Deductible - Save on car insurance by opting for a $500 deductible instead of $250.
- Lower Interest Rates - If you are carrying a credit card balance, call and ask for an interest rate reduction. Many will oblige.
- Enjoy Leftovers - Stretch your food value and reduce waste by spicing up leftovers or adding fresh veggies.
- Ask HR - Check to see if your company has employee discounts on insurance, cell phones, internet and other useful things.
- Use a Financial Advisor - Look for someone who specializes in your situation. For example: advisors for teachers' pensions, divorced women, business owners, etc.
- Energy Efficiency - Upgrade to newer, energy-saving appliances. A 10 year old fridge may use up to 40% more energy than a new model. You don't have to buy new, just "newer".
- Bring Water - Always carry a reusable water bottle when you leave the house (for work, errands, outings etc.). It is better for the environment and you'll avoid having to buy a cold drink!
- Always Feed the Parking Meter - Put more time in than you need, even if it costs an extra dollar, it's still cheaper than a $40 parking ticket.
- Buying a Car? Whether new or used, wait until the end of the month. Sellers will often offer a better deal since they need to make a sale to boost their productivity.
- Help Your Kids - Consider co-signing a credit card for your kids when they get to age. It can be a low credit limit card, like $500, but it will kick start their credit bureau and start building their score for the future.

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Homeowners Struggling with Debt Repayment

You may be reading this ebook thinking to yourself, "they keep telling me that I need to pay off all my debt and lower my utilization to increase my score, but I just don't have the money!" You are not alone! If you are a homeowner and you are struggling with debt repayment, there are options for you!

Refinance

The first option we would look at is to refinance your current mortgage. A refinance allows us to use up to 80% of the value of your home to pay out your current mortgage and then the remaining funds to pay out high interest consumer debts that you have accumulated. A new first mortgage typically carries a much lower interest rate than consumer debts and therefore, can save a significant amount of money month-over-month. This is a nice option because it puts everything into one payment which is much easier to manage. The biggest factor in determining whether or not a refinance makes sense for you is to determine how much time is remaining in your current mortgage term. If you are on a fixed rate mortgage, the penalty to break could be substantial depending on how much time is remaining. It's always best to check with your mortgage lender to determine the maturity date and what your penalty would be to break. This way, we can run the numbers to determine if the savings long term outweigh the penalty. If a refinance does not make sense, we would take a look at the next two options. On the next page you will see what a refinance could look like in terms of tidying up your monthly expenses and saving money. **Note: With this option you will be required to pay for an appraisal, legal fees and have the new mortgage registered on title.**

2nd Mortgage

If a refinance does not make sense because of a large penalty, we could look at a "band-aid" solution until your first place mortgage comes up for renewal. The idea here is to take all of your high interest consumer debts and roll them into a second mortgage with one monthly payment. This option has a higher interest rate than a first place mortgage, but will still have a lower interest rate than much of your consumer debt (think high interest credit cards or car loans). Once your first place mortgage reaches maturity, we would refinance your first place mortgage and use your equity to pay out your 2nd mortgage and roll everything into one payment as outlined above. **Note: With this option you will be required to pay for an appraisal, legal fees, possible broker fees, and have the 2nd mortgage registered on title behind your first place mortgage.**

Prompt Financial

Prompt Financial is a company that provides loans to home owners based on the value of the home. The nice thing about Prompt Financial loans is that they are not registered on title, do not require an appraisal and there is no income document requirement. Funds are available within 48 hours of approval and can really help to improve your monthly cash flow. The idea here is again, pay out high interest debts first to bring down the monthly payment and roll them into one more manageable payment. Once your mortgage reaches maturity, you could then refinance and pay out your Prompt Financial Loan.

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Debt Consolidation by Refinancing Your Current Mortgage

Type	Amount Owing	Rate	Monthly Payment
Existing Mortgage	$ 300,000.00	3.09%	$ 1,501.00
Line of Credit	$ 18,000.00	7.00%	$ 360.00
Credit Card	$ 20,000.00	4.00%	$ 400.00
Car Loan	$ 15,000.00	24.00%	$ 450.00
Total Owing	$ 353,000.00	-	**$ 2,711.00**
POST REFINANCE			
New Mortgage	$ 353,000.00	2.29%	**$ 1,354.00**
Total Savings	-	-	**$ 1,357.00**

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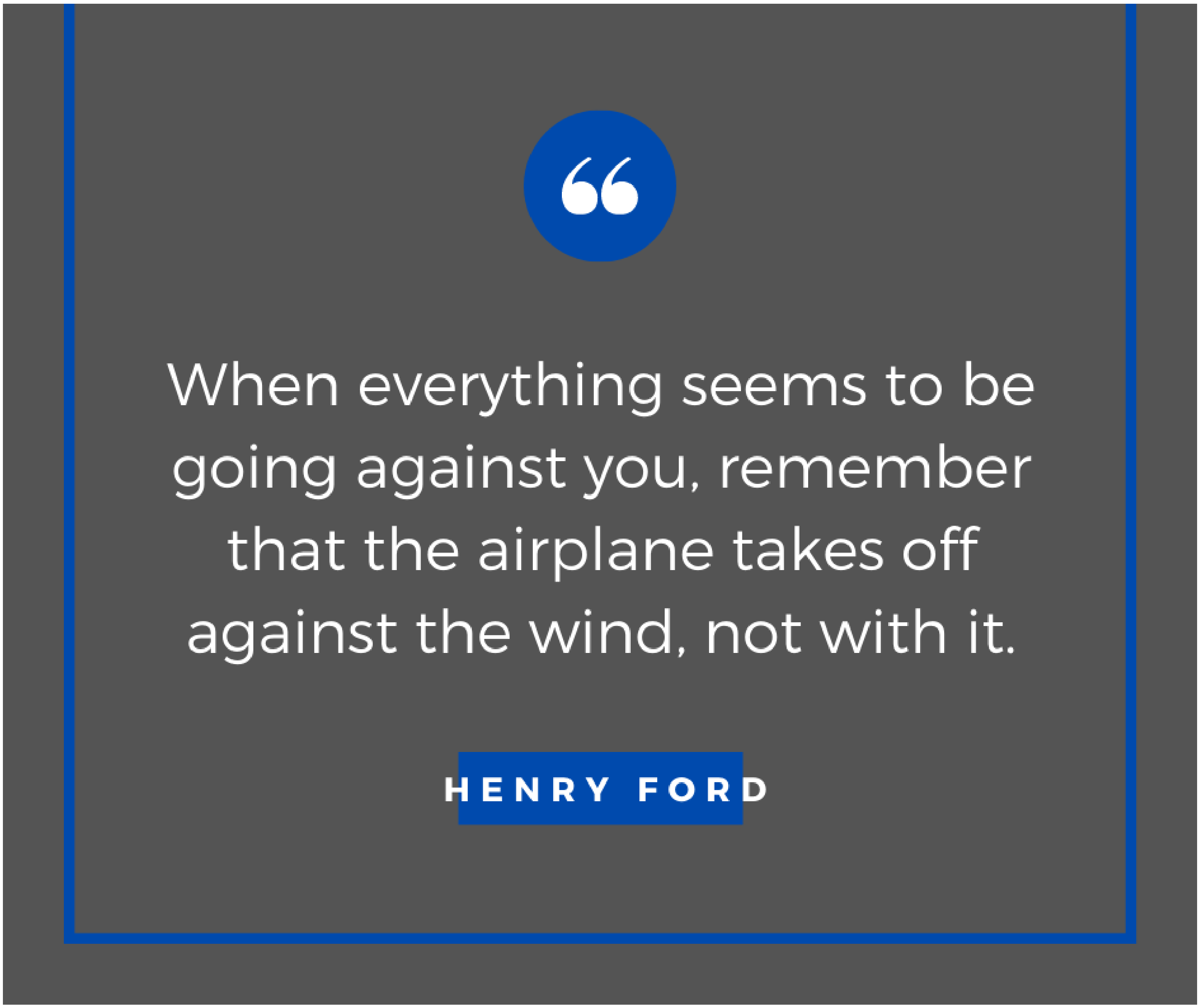
Final Thoughts

Credit reports and scores can be confusing. They also take a lot of work to maintain. But if you begin by creating a plan for yourself to pay off your debts and by using your credit mindfully and deliberately, you will see a substantial impact to your credit score. Nothing lasts forever, and your debt and lower credit score don't have to either! Feel free to reach out at any time and I would be happy to review your options and together we can create a plan to work on your financial situation to get you where you want to be!



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