# 1. Understand Your Credit Rating

Based on the information collected about how you have handled credit in the past and your projected future performance in paying debts, a statistical formula is used to develop a credit score for you.

## Credit Bureau:

- Also known as a credit reporting agency or company.
- A business that collects information on the credit history of individuals and businesses and sells that information to potential creditors, employers, and insurance companies.
- Receives information from various places where you do business.

## Credit Report:

- Financial information used by lenders to determine the creditworthiness of individuals or companies.
- Contains personal and employment history of an individual or company.
- Includes payment history of all debts.
- Credit bureaus do not make the decision about creditworthiness; they only supply the information. Lenders make the decisions.
- With your consent, potential creditors, banks, credit card companies, insurance companies, etc., can contact credit bureaus for a copy of your credit report.

Canadian Credit Bureaus:

- Equifax Canada
  http://www.equifax.ca
- TransUnion of Canada
  http://www.transunion.ca
- D&B Canada
  http://www.dnb.ca

## Credit Score:

A credit score is a numerical rating based on credit report information that represents a person's level of creditworthiness. Two major factors are taken into consideration:

1. Whether you pay your bills on time.
2. How much credit you actually use out of what is available to you.

The credit score helps a lender predict how likely you are to repay a loan or make a credit payment on time.

## Credit Rating:

- A ranking, generally between A and F, given to an individual by a credit bureau, specifically related to that individual's ability to pay debts.
- Reflects past performance in paying debts.
- Projects future performance in paying debts.
- A positive rating may allow an individual to receive favourable consideration in loans and credit cards, such as lower interest rates.

Remember, it's okay to request and check your own credit report. When you request your own report, it is considered a consumer inquiry. This won't affect your score, as long as you order your credit report directly from a credit bureau or through an organization authorized to provide credit reports to consumers.

## How do you measure up?

Credit analysts often speak about the 5 C's of Credit. These consist of five qualities that over time have proven to be good indicators of a borrower's ability to repay debt. They are:

## 1. Credit History:

Do you and your company pay bills on time? A strong record of paying your debts on time tells lenders that you are able to handle future credit. In addition to payment history, lenders look at things like how long you've been in business and your reputation within the community. All of these help lenders understand the type of borrower you're likely to be.

## 2. Capacity:

What is your capacity to repay debt? Your business and personal income and financial position provide valuable clues about your ability to pay back a loan or handle debt.

## 3. Collateral:

Are you offering any collateral as security? Collateral provides recourse for the lender in case you don't pay back the loan. When you're just starting out in business, providing collateral may make it easier for you to obtain a loan.

## 4. Capital (a.k.a. Cash & Assets):

How well is your business capitalized? The status value of your business's cash and assets is used by lenders to assess your overall financial strength and determine how easily you can repay any loans.

## 5. Character:

JP Morgan once said there was only one thing he looked for in a borrower: character. Today, lenders still prize character. However, since it is impossible to know every borrower personally, financial institutions evaluate your character using a variety of measures. These include reviewing your payment history on loans and checking your credit record for judgments, delinquencies, or other derogatory information.