



## Understanding credit

You may have heard about the perils of running up your credit cards and then having to pay large sums of money back at precipitous interest rates. If you didn't know better, you'd think credit was something to steer well clear of.

But actually, says Scott Bergen, a product manager with Manulife Bank, credit can be an important asset if you use it properly.

"For example, if you use credit cards and pay the balances off in full each month, you have the convenience of credit without the interest charges," he says. "Also, owning a credit card and using it responsibly is an excellent way to establish a credit rating because it provides proof that you can be counted on to pay back borrowed money according to prescribed payment schedules. That can be important later in life when you want to borrow larger sums of money, for instance to buy a house or car."

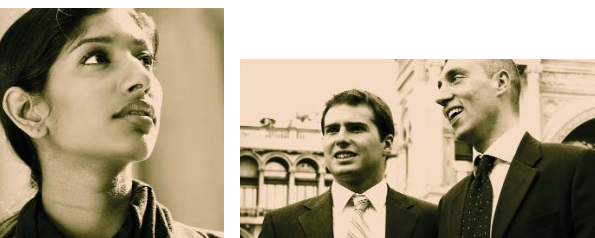
There are many ways to use credit to your advantage. Most people would never be able to own a home without credit, for instance. You might be able to buy a new car with financing as low as zero per cent from a dealer. Some people borrow money to make RRSP contributions, then pay back part of the loan with their tax refund – also a responsible use of credit.\*

Of course, borrowing for investment purposes can magnify the risk as well as the reward of investing.

### **ACCESSING YOUR CREDIT RATING**

"Your credit rating is like a financial report card," says Bergen. "It assigns a 'grade' that tells potential lenders how reliable you are likely to be when it comes to paying back borrowed money."

Your credit report includes details about your payment history and credit products – and if you've ever filed for bankruptcy or been subject to tax liens, that information will be there as well.





Credit ratings range from R0 (no data available) to R1 (always pays on time) all the way down to R9 (bad debt or placed for collection or bankruptcy). The chart below, from Equifax Canada, provides more detail:

Rating	Meaning
R0	Too new to rate; approved but not used
R1	Pays within 30 days of billing, or pays as agreed
R2	Pays in more than 30 days but less than 60 or one payment due
R3	Pays in more than 60 days but less than 90 or two payments past due
R4	Pays in more than 90 days but less than 120 or three or more payments past due
R5	Account is at least 120 days past due but is not yet rated R9
R6	No rating exists
R7	Paid through a consolidation order, consumer proposal or credit counseling debt management program
R8	Repossession
R9	Bad debt or placed for collection or bankruptcy

The Consumer Reporting Act entitles you to a copy of all the information a credit agency has on you. You can obtain a copy of your own credit report by contacting

- Equifax Canada – [www.equifax.com](http://www.equifax.com), 1-800-465-7166 or
- TransUnion Canada – [www.tuc.ca](http://www.tuc.ca) or 1-800-663-9980

## WHAT DAMAGES YOUR CREDIT

Your credit is damaged by failure to pay bills on time or by skipping out on them entirely. You can prevent this from happening by using your credit cards responsibly and making at least the minimum required payments on time every month.

Ideally, you should pay your credit card balances back in full each month. If you have trouble doing that, consider consolidating all your balances with a single lower-interest loan, such as a line of credit.

As long as you use it responsibly, credit can work to your advantage.

\* Interest paid on loans used to make RRSP contributions after November 12, 1981 is not deductible

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