What Credit Score Do You Start With in Canada?

Description

In Canada, credit scores can be as high as 900 and as low as 300, but don't worry: if you've never had credit activity — a credit card or loan, or instance — you won't start at 300. You'll start with *no* score. What does that mean exactly? And how can you put your score in the good to excellent range? Let's take a closer look.

What credit score do you start with?

When it comes to credit scores, everyone starts with a clean slate. That doesn't mean you start with a perfect 900, however. Rather, it means you start with no score at all, a big "N/A" next to your credit.

To understand why, recall that credit scores are a measure of your creditworthiness, that is, how well you've handled credit in the past. Credit bureaus, such as Equifax and Transunion, look at a number of different factors to decide where you stand on the credit score scale. If you've never engaged with credit before, these bureaus simply don't know enough about your behavior to properly score you.

How do you *get* a credit score?

In order to land on a credit bureau's radar, you'll have to start borrowing money. For many Canadians, especially those who just turned 18 or 19, that usually means taking out your first credit card. Once you have a credit card, you can borrow money and pay it back on time. After about six months of crediting activities, credit bureaus will typically have enough data to score you.

What makes up your credit score?

Your credit score is a three-digit number that measures how well you handle borrowing money. Though each credit bureau has a unique way of calculating your score, many break your score into five parts.

Payment history (35%)

The payment history portion of your score tells credit bureaus how frequently you pay your credit card or loan bills on time. The more consistently you pay back what you borrow before the due date, the stronger this portion of your score will be. Missed and late payments, on the other hand, will start to lower this portion significantly.

Credit utilization (30%)

Credit utilization measures how much credit you're using versus how much total credit you've been extended. For instance, if you're borrowing $200 on a credit card with a $1,000 credit limit, your credit utilization ratio would be 20% ($1,000/$200). In general, the lower your credit utilization ratio, the higher you'll score in this area. When you're using less credit, credit bureaus assume you're not overextending yourself. At the very least, try to keep your credit utilization ratio under 30%.

Credit history (15%)

Credit history measures how long you've been using credit. Since you don't have a credit score, this portion of your score will remain low for some time. The longer you keep your credit card account open, the higher you'll score in credit history.

Public records (10%)

The public records portion of your credit score evaluates how many bankruptcies or public judgments you've had in the past. Though public records are a smaller piece of your credit score (10%), they can still have a significant impact, as bankruptcies can stay on your record for seven to 10 years.

Hard inquiries (10%)

Finally, the hard inquiries portion of your score counts how many times lenders have pulled your credit in the recent past (around two years). This typically happens when you apply for a credit card or loan. Having one or two hard inquiries within a one-year period isn't necessarily a bad thing. But the more inquiries you have in a short period of time, the more suspicious credit bureaus get: you could be facing financial hardship, making you a more risky borrower.

What's the best way to establish your credit score?

While having no credit score is somewhat better than having low credit, you want to establish the right habits from the get-go to put yourself on track. Perhaps the number one way to establish your credit score is to always pay your bills in full and on time. When you pay your entire statement balance, rather than carrying a portion into the next billing cycle, you won't pay a dime in interest. That prevents you from going deep into credit card debt, as the APR on a credit card is notoriously high.

If you can't pay your full statement balance, at the very least pay the minimum. By paying the minimum, you avoid missing a payment. Because missed payments make up a big portion of your score (30%), having even one can knock it down significantly.

Because you have no credit score, you might also want to look into credit cards that are easy to get approved for. A secured credit card, for instance, requires that you put down an initial deposit (usually equal to your credit limits), but you can typically get one with no or low credit. Over time, as you use your card responsibly, you'll see your credit score go up. At a certain point, your credit card issuer may allow you to graduate from a secured card to a card with more benefits, possibly a rewards card or cashback card.

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