

New to Canada? A Beginner's Guide to Building Credit for New Canadian Entrepreneurs

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Introduction: Why Credit History Matters

Your credit history is like a financial passport. It opens doors to opportunities. For newcomer entrepreneurs, it's the foundation for accessing loans, leasing equipment, and building credibility as a business owner. This guide breaks down the steps to help you establish and strengthen your credit history in Canada, setting you up for long-term success as you grow your business.

Step 1: Apply for a Credit Card

Why? Credit cards are a starting point for building credit, showing lenders, you can manage debt responsibly.

Tips for building credit history:

- ◆ **Start with a Secured Credit Card:** If you're new to Canada or don't have a credit history yet, a secured credit card is a great option.
 - These cards require a small deposit as collateral, which is refunded once you

demonstrate good credit habits.

- It doesn't require a credit product with a large credit limit to establish favorable credit history, the favorable re-payments and length of time on file matter more.

- ◆ **Explore Newcomer-Friendly Credit Cards:** Many Canadian banks offer credit cards specifically for newcomers.

◆ Ask About Reporting Practices:

- **Not all credit products contribute to building your credit.** Some lenders do not report transactions to credit bureaus (Equifax or TransUnion), or they may report to only one agency. Always confirm if the lender reports your payment history and to which agencies.

- ◆ **Have a good mix of different kinds of credit products:** Having all Telco products for example (i.e. wireless and internet accounts) may not be ideal. These products tend to have an "Open" credit limit that may not work

well for the credit scoring algorithm.

Alternatives if Denied:

- ◆ **Joint Accounts:** Open a joint credit product with a trusted family member.
- ◆ **Retail Credit Cards:** These are often easier to get approved for but should be used sparingly and responsibly, note these credit cards may have higher interest rates as well.

Step 2: Manage Your Credit Responsibly

Why? Your approach to managing credit now will affect your ability to secure larger loans in the future.

Best Practices:

- ◆ **Pay Bills On Time:** Late payments can hurt your score, so set up automatic payments or calendar reminders. Payments made immediately or too early may not be beneficial (paid before the charge hits your credit card billing statement) they may not show the credit product was utilized.
- ◆ **Keep Credit Utilization Low:** Aim to use less than 30% of your credit limit.
 - Example: If your credit limit is \$1,000, try to keep your balance below \$300.
 - Note as well – sudden increases in spend different from your typical pattern can have an impact on credit score. Example: If you usually spend \$300 a month on a credit card with a \$1,000 limit, then suddenly start spending \$800 a month - this can have a derogatory impact, though can normalize over time (it may become your “new

normal” and credit scores will improve over time, if payments are all respected at these higher levels).

- ◆ **Limit Credit Applications:** Every application may trigger a “hard inquiry,” which can lower your credit score temporarily. Ask if creditors will do a hard inquiry or a soft inquiry (soft inquiry will not affect the score)

Step 3: Diversify Your Credit History

Why? Lenders like to see a mix of credit types to understand how well you manage different financial responsibilities.

How to Diversify:

- ◆ **Explore Other Credit Options:**
 - Personal loans for manageable purchases or investments.
 - Car loans (if needed) from reputable lenders.
- ◆ **Report Rent Payments:** Some landlords in Canada participate in programs that report rent payments to credit bureaus. Ask if this option is available to you.

Step 4: Monitor and Improve Your Credit Score

Why? Regular monitoring helps you stay on track, catch errors, and identify areas for improvement.

Tools to Monitor Your Credit:

- ◆ **Free Platforms:** Research what is available – it is ideal to go with a solution that obtains

the credit score direct from TransUnion or Equifax as opposed to an “estimated” score which may not be aligned with the credit reporting agency scores.

- ✦ **Annual Credit Reports:** Request a free report from Equifax or TransUnion to spot any errors or inaccuracies.

Ways to Improve Your Score:

- ✦ **Dispute Errors:** If you notice incorrect information, report it to the credit bureau immediately.
- ✦ **Request Higher Credit Limits:** Over time, increasing your limit can help lower your credit utilization ratio.
- ✦ **Keep Older Accounts Open:** The longer your credit history, the better it may look to lenders when those credit products were well respected.

Conclusion: Building for the Future

Building a strong credit history is a journey, not a race. By following these steps, you’re laying the groundwork for both personal financial stability and the future success of your business. Good credit not only unlocks funding opportunities but also builds trust with lenders and partners, giving you the tools to scale your entrepreneurial vision.

Next Steps

Start today! Enroll in Futurpreneur’s [My Canadian Startup](#) initiative to access resources designed for new Canadian entrepreneurs. Apply for a secured credit card, monitor your progress, and take charge of your financial future with confidence.