

credit

TAKE CHARGE OF IT



Financial Literacy

MONEY MANAGEMENT EDUCATION



Financial Literacy: Money Management Education

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LEARNING GOALS

- 1 Develop awareness about the purpose, advantages and disadvantages of credit.
- 2 Learn strategies for the wise use of credit.
- 3 Understand where to access consumer credit tools and resources.

FINANCIAL LITERACY



CREDIT



what is credit?

Credit is a tool: a method of payment which allows you to purchase goods and services today and then pay for them later.

The word “debt” is interchangeable with the word “credit” and both of these terms will be used in this module.

It is important to understand that usually there is a cost to borrowing money (**credit**). Often that cost comes in the form of **interest** (a percentage rate that is added to the balance owing at each compounding period). More information on how interest is calculated can be found on page 10.

Examples of credit include: credit card, car loan, mortgage, utility bills.



CREDIT PROS AND CONS

What are the first three things that come to mind when you think about credit? Check if you think those things are good or bad.

1	<input type="checkbox"/> Good	<input type="checkbox"/> Bad
2	<input type="checkbox"/> Good	<input type="checkbox"/> Bad
3	<input type="checkbox"/> Good	<input type="checkbox"/> Bad

Credit can be:

- **Unsecured.** You do not have to offer any security (deposit or collateral) before you can use this type of credit. Examples include credit cards such as Visa, MasterCard and American Express; store credit cards such as Sears, Canadian Tire, and HBC; and gas credit cards such as ESSO, Shell and Petro-Canada. Overdrafts and gym club memberships are also examples of unsecured credit.
- **Secured.** You must offer some security or collateral before you can access this type of credit. Examples include mortgages, utilities, some lines of credit, car loans or secured credit cards (you make a security deposit before you begin using them). The interest on secured credit is often lower than unsecured. This is because there is less risk for the creditor. If you can't make your payment the creditor can take whatever collateral or security you have given them to go toward what you owe.



why do I need credit?

Credit or having access to credit may assist you in reaching your goals. For example, increasing your assets, such as buying a house (a physical asset) or going to school (a human asset) may require you to take out a loan.

Credit is neither good nor bad. It all depends on how you use it.

Credit has a lot of benefits but can also be quite dangerous if not used responsibly.

It could be used for:

- Investing, e.g. buying a house
- Buying now and paying later
- Large purchases, e.g. car, education
- Replaces the need to carry cash
- Emergencies
- Building credit history
- Reward programs and insurance
- Shopping online, e.g. concert tickets
- Renting a movie
- Paying for parking

If not used responsibly:

- Easy to live beyond your means
- Impulse buying
- Debt builds with partial payments
- High interest rates and services charges
- The risk of bad credit
- The risk of bankruptcy
- Personal and/or relationship stress



Kim needs new living room furniture. She finds a store offering a “no money down for two years” program, so she buys furniture worth \$3,000. So far, so good! Time goes by and Kim remembers that she hasn’t paid for her furniture. If she has the money, and she pays the store the \$3,000 any time before the two years is up, her account is closed—good deal! BUT if she can’t pay until after the two years are up, she has to pay interest dating back to the day she made her purchase—and the interest rate will be high! For example, if the interest rate is 29% and she pays her bill one day after her two-year deadline, Kim will pay \$1,740 in interest, on top of her \$3,000 furniture bill!

Source: *Put your debt on a diet: A step-by-step guide to financial fitness*, Stanley Kershman (2004)



importance of credit

Credit is a part of our financial world today. It is an asset! You may need credit or access to credit to borrow now and in the future. Some employers, landlords and utility companies also need proof that you have a good credit rating.

CREDIT HISTORY

Credit bureaus collect credit information about you and how long it takes you to pay back money you borrowed. This information is called your “credit history” or “consumer disclosure.”

The information for your credit history comes from you, your creditors (banks and credit card companies) and public records. It usually does not include information about your mortgage. Whenever you apply for a loan or a credit card, make or miss payments, or have a collection agency contact you, you add to your credit history.

Your credit history contains all your important financial information, including:

Personal information	Name, current and previous address(es), social insurance number (SIN), telephone number, date of birth and current and previous employer(s).
Credit information	Payment history for credit cards, line of credit, overdraft or loan.
Banking information	Any NSF (non-sufficient funds) cheques written.
Credit report inquiries	List of those who have inquired about your credit, such as yourself, lenders or any other authorized organization.
Public record information	Collections, orderly payment of debts or bankruptcies.
Consumer statement	Information you have provided to explain a particular situation, such as a dispute with a financial institution or a fraud warning.



CREDIT REPORTS

A credit report sums up your credit history and is included in the calculation of your credit score. You can get a free copy of your credit report by mail or pay to get your report instantly. By mail, you must request your credit report in writing and attach a copy of two pieces of identification (ID), such as a driver's license, passport, phone or utility bill or bank statement. To get it immediately, go to the credit bureaus' websites.

Note that each credit bureau has slightly different requirements for ID. Check with each one first before you copy your ID and send your request for a credit report. Be aware that requesting your credit reports updates your contact information and allows creditors to find and contact you. You will get a more complete picture if you order from both credit bureaus. Checking once per year is enough.

There are two credit bureaus in Canada: Equifax Canada Inc. and TransUnion Canada Inc. The full contact information for both is located in the resources section at the back of this module.

CREDIT RATING

Credit bureaus describe the history of your credit payments by giving them a credit rating. Credit ratings range from 0 to 9. Each item of credit listed in your credit report has its own rating. Note, there is no "6" rating.

0	No history; too new to rate; approved but not used.
1	Pays the minimum payment or full amount on time each month.
2	Pays in 30–60 days; missed one payment.
3	Pays in 60–90 days; missed two payments.
4	Pays in 90–120 days; missed three payments.
5	Amount is at least 120 days overdue, but hasn't been sent to collections or rated a "9" yet.
7	Making regular payments under a consolidation order, such as Orderly Payment of Debt.
8	Repossession of goods.
9	Bad debt; placed for collection; skip; bankruptcy.



An “R” in front of the rating stands for “revolving” credit, where your balance can change from month to month, depending on how much you charge on your account. A credit card is an example of revolving credit.

You might also see an “I” in front of the rating on your credit report. “I” stands for “installment” credit, where you borrow money once and repay it in fixed amounts until the loan is paid off. A car loan is an example of installment credit.

An “O” stands for an “open account”, like a cell phone account.

Be aware of these credit history situations:

- **Too many applications.** Every time you apply for a loan, credit card or store card, you fill out an application form. The company then forwards your information to the credit bureau and they update your file as an inquiry. If you have too many inquiries on your file, you may look desperate for credit and be considered a credit risk. This information may stay on your credit report for three years.
- **Pre-approved credit.** Even if a credit card application sent to you in the mail suggests that you have been pre-approved, do not take that for granted. A credit check will be done if you complete and send in the application form. Remember to shred the application form if it’s unwanted.
- **High debt capacity.** Each time you are accepted for credit, you increase your potential to carry debt. A large capacity for debt could mean that you may be declined credit when you really need it. For example, if you have a credit limit of \$10,000 on your various credit cards, that amount is considered your capacity (potential) for debt, even if your balance is zero.



CREDIT SCORE

A credit score measures the risk you pose to lenders, compared with other people. The credit scoring scale ranges from about 300 to 900. The higher your score, the lower the risk for the lender. A score above 720 is considered to be “good credit”, while a score below 600 is considered to be poor.

Credit scoring awards points for each factor that helps predict who is most likely to repay a debt. Your credit score is based on:

- Payment history (35% of the overall score)
- Amounts owed (30% of the overall score)
- Length of credit history (15% of the overall score)
- New credit (10% of the overall score)
- Type of credit used (10% of the overall score)

Credit scoring systems cannot use race, gender, marital status, national origin or religion as factors. However, they can use age as a factor.

Note: You must be 18 or older to be eligible for credit.

CORRECTING YOUR CREDIT REPORT

It is your responsibility to make sure that the information in your credit report is correct. You have the right to challenge any information that is not accurate. You also have the right to add a description to your report to explain a certain situation.

To correct errors on your credit report:

- 1 Copy your credit report and highlight the error.
- 2 Write a dispute letter that describes the error (see sample letter handout).
- 3 Copy and include any information that can help prove the item is an error, such as a cancelled cheque used for payment, a receipt or a credit card statement.
- 4 Send the highlighted copy of your report, the dispute letter and any additional information to the credit bureau.
- 5 Once you send the information to the credit bureau, they will investigate, confirm the accuracy of your information, make any appropriate changes and send notification of corrections to every creditor who made an inquiry on your file in the last six months. If the credit bureau does not agree there is an error, you will have to contact the creditor directly.
- 6 Follow-up with the credit bureau. It may take a long time to correct an error.



Did you know...

A credit score is also called a Beacon or FICO® score. FICO® is short for “Fair Isaac Corporation”, the company that invented this scoring system.



Did you know...

Think carefully before you co-sign a loan for someone else. As a cosigner, you have to pay back the debt if that person can't or won't pay. If the other person doesn't pay back the loan, that could affect your own credit rating. Even if the other person does pay back the loan, you don't get any recognition for that on your own credit report.



applying for credit

When you apply for a credit card or a loan, be prepared to show that you can pay your debts on time. Use the following documents as proof of your ability to handle credit:

- Copy of your credit report.
- Copy of your bank statement.
- List of your assets and debts.
- Your monthly budget.
- Letter from your employer and/or your landlord.

Creditors want to be sure you can afford to pay back what you owe, on time.

They look at:

- Your payment history: Do you pay your bills on time?
- Amount you owe: How much do you owe or have access to right now?
- Length of your credit history: Have you used credit before? If so, for how long?
- Your new credit: Have you just signed a number of new credit agreements?
- Types of credit you use: Do you have loans, credit cards, pay-later plans, lines of credit or overdraft protection?

3 CS OF CREDIT

Creditors look for the 3 Cs of credit:

Capacity	<ul style="list-style-type: none"> • How able are you to repay a debt? • What is your income? • How much do you owe and to whom? • What other financial obligations (e.g. dependents) do you have? • How long have you been working? • How secure is your job?
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Collateral (Capital)	<ul style="list-style-type: none"> • What security can you offer against the debt (home, car, savings, etc.)? • Do you have a savings account? • Do you have investments to use as collateral? • Are your assets (what you own) greater than your debts (what you owe)?
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Character	<ul style="list-style-type: none"> • Are you honest? Can you provide good character references? • Are you responsible? Do you pay your bills on time? • Are you stable? How long have you lived at your present address? • Are you employed? How long have you been at your present job?
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Remember!

Never “just sign here”. Read the fine print on ALL credit agreements before you sign. Make sure you understand all the conditions: what you are responsible for and what the credit card company can do if you don’t follow through on the agreement. If you don’t understand something, ask questions until you are satisfied.



types of credit

It is important to have a good idea of what credit options you have and what options best suit your needs. Whether you can get access to all or some of these types of credit will depend on your credit history.

- 1 **Revolving credit:** Your balance can change from month to month, depending on how much you can charge on your account.
- 2 **Installment credit:** Borrow a lump sum once and repay it in fixed amounts until the loan is paid off.
- 3 **Open credit:** The payments must be paid in full each month, and these charges continue for as long as the consumer has an account with the service provider.

REVOLVING CREDIT

Credit cards

Unsecured: Credit card and store cards allow the purchase of goods or services up to a set amount of money, which is your credit limit. Compound interest is charged on the unpaid balance each month. Using a credit card or store card is like getting a free loan, but only if you pay the balance off every month. Credit cards are available from many places, including banks, stores and online. Banks are the most credible and safest locations for getting a credit card, plus they charge the lowest interest rates.

Secured credit cards: Secured credit cards are an excellent way to build a positive credit history and are designed especially for people with no credit history or those who have had past credit problems.

Here's how a secured credit card works: You apply for the card and make a security deposit, typically for a similar amount as the limit on the card. This deposit earns interest while your account is open and in good standing. You use your secured card to buy goods and services, just like a regular credit card. You receive a bill every month and make at least the minimum payment.

Once you prove that you are a good customer (by making at least your minimum monthly payments on time for a period of up to three years), you can apply for a regular unsecured credit card. Then you can close your secured account and the bank will refund your deposit plus any interest.

Note that secured cards have set-up, monthly and over-limit fees; read the fine print!

Most banks offer secured credit cards. If you would like a secured credit card, contact your local bank or check out the secured credit cards at: www.fcac-acfc.gc.ca.



Pre-paid cards are not credit cards because you are spending your own money. Visa and MasterCard offer these pre-paid cards at many creditors, including high-cost lenders such as Money Mart. They are useful for travel, online purchasing and gifts. They have also been used as payroll by some employers. They are not useful for you to build your credit history. Also be prepared to pay fees (not interest) for set-up, loading, use and maintenance.

Source: www.fcac-acfc.gc.ca



TIPS FOR USING YOUR CREDIT CARD

- Decide what items you will pay for with your credit card, e.g. basic living expenses only.
- Set rules for how much you will put on credit each purchase, e.g. pay cash for anything over \$30 (excluding groceries) to keep from charging large amounts to your credit card.
- Credit is still money, so compare price and value when you are shopping for an item.
- For each credit card purchase, ask yourself: Would I still buy this if I had to pay cash?
- Pay off your credit card balance **ON TIME** and **IN FULL** every month. If you just can't pay the whole amount, it is better to make the minimum payment on time than no payment at all.
- Don't use too many credit cards. It's easier to manage just one!
- Keep your receipts and check them against your credit card statement to make sure all the information is correct.
- Set up online or mobile banking so you can check your credit card balance and make payments online.
- Avoid getting a cash advance on your credit card. The interest you will pay on a cash advance will be higher than your regular interest rate plus your card begins to charge interest the moment you borrow money.
- Never give your credit card number over the phone unless you made the call or know for sure the caller's identity.
- Sign the back of a new card when you receive it. The merchant should be checking that the signature on your card matches the signature on the receipt.
- Make a list of your credit cards and the creditor's phone number. Store the list in a safe place, away from your credit cards. Report a lost or stolen card immediately.
- If you see something you want to buy, wait 24 hours before you purchase it. That will give you time to think more about the item and whether or not you really want or need it.
- If you're finding that a credit card is just not for you then cut up your card and inform the credit card company that you wish to cancel it. Ask them to confirm in writing that your card has been cancelled. If you don't cancel your card, that credit limit will remain on your credit history and could hurt your chances of getting more credit in the future.



Minimum payments

For most credit card companies, your minimum monthly payment is just 3% of your total amount owing. Because your interest adds up much faster than that, it can take you many years to pay off your total debt.

Imagine you owe \$1,000 on your credit card. If you only paid the minimum balance each month, here is what you would pay and how long it would take for you to pay it off at different rates of interest:



You can check your own payments with the Credit Card Payment Calculator on the Financial Consumer Agency of Canada's website at www..fcac-acfc.gc.ca

Interest rate	Interest you would pay	Total you would pay	Time it would take you To pay it back
15%	\$576.75	\$1,576.75	8 years and 10 months
21%	\$1,104.63	\$2,104.63	11 years and 6 months
29%	\$3,114.37	\$4,114.37	21 years and 5 months

Compound Interest

Why does interest add up so quickly? Total interest is compounded, which means that when you don't pay the full amount of what you owe (plus the interest), new interest is calculated both on the original amount you owe plus on the interest that has been added. In other words, compound interest means you are charged interest on your interest!



Original amount owing	First interest charge (7% of \$1,000.00)	New amount owing	Second interest charge (7% of \$1,070.00)	New amount owing	Third interest charge (7% of \$1,144.90)	New amount owing
\$1,000.00	\$70.00	\$1,070.00	\$74.90	\$1,144.90	\$80.14	\$1,225.04



Compound interest works the same way when you save. Imagine instead of owing \$1,000, you were saving \$1,000 with the same interest! After just three years, you would have earned \$225.04 on your \$1,000 investment!



REVOLVING CREDIT

Overdraft protection

With overdraft protection, the bank covers the amount you spend that is more than your current bank balance. You will then avoid the consequences of writing an NSF (non-sufficient funds) cheque. There is a fee for this service and interest is charged on the balance. Ask for this service only if you are often near a zero balance in your chequing account.

Line of credit

A line of credit is a limited amount of credit, often secured against your home or another asset. A line of credit operates much like a credit card:

- You can withdraw money up to the agreed-upon limit at any time.
- You can carry a balance from month-to-month.
- You make a minimum monthly payment.
- You pay interest on what you have borrowed.
- Your payment history will be reported to the credit bureaus.
- Once you've paid your line of credit back, you can use it again without reapplying.

A line of credit offers a lower interest rate than credit cards. The interest rate for a line of credit is usually the prime rate plus 1% to 3%. You must apply and be approved for a line of credit. Your bank or credit union will be able to tell you more about the line of credit services they offer.



New Credit Regulations Effective September 2010

The Government of Canada has made changes to protect the consumer.

Some changes include:

- A minimum 21-day, interest-free grace period on all new credit card purchases when the outstanding balance is paid in full.
- No credit limit increases without your consent.
- No over-the-limit fees due to holds placed by merchants.
- Credit card statements are to include the time to repay your full balance if you pay only the minimum required each month.

Learn more at: www.fcac-acfc.gc.ca



INSTALLMENT CREDIT

Loan

A set amount of money borrowed that you repay in equal monthly payments. You might ask for a loan to buy assets such as home improvements or an RRSP.

Before you sign for a loan, find out:

- What the interest rate is.
- How the interest is calculated.
- What your monthly payment is and when it is due.
- What the total cost of the loan will be.
- If there is a fee for paying your loan off earlier than the agreed-upon term.
- If there are additional fees, such as insurance.

When you apply for a loan, you will need to provide the following information:

- Personal information: name, address, birth date and social insurance number.
- Employment and income details.
- The reason for the loan.
- Your assets, such as a car, home, investments and bank account.
- Your debts, including other loans, credit card balances, mortgages etc., and the total of your monthly payments for those debts.

Mortgage

A mortgage is a loan for real estate, secured against the value of your property. You need to answer the same questions about interest rates and payment schedules, and provide the same information as for a loan.

OPEN CREDIT

Utility companies

An account with a heat, water or electricity company for services to your residence. This is an open account as your charges depend on how much you use. Full payment is expected when you get your bill.

Cell phone service providers

Cell phone providers often offer 1- to 3-year term contracts that have a set monthly fee. Depending on the plan, there will be a specific amount of time use and additional services per month. Using more than these amounts of services will result in extra charges.



high-cost credit

There are a few other ways to get credit, but beware! These are more expensive than a bank or credit union loan, line of credit or credit card.



Payday loan companies can charge up to 599% interest, on an annual basis.

FINANCE COMPANIES

A finance company, such as CitiFinancial, will lend to people who do not qualify for a bank loan. But there's a catch! Finance companies lend money more easily than banks because they charge much higher interest rates—usually between 28% and 33%. These companies may also cash cheques for people without bank accounts, but they will charge high fees for that service.

Before you sign a finance company loan, read the fine print and know your contract. Watch for the interest rate and how it is calculated, service or early repayment fees, and any additional clauses (have they listed any items in the contract that are being used as security collateral for the loan?).

PAYDAY LOANS

A payday loan is a short-term loan you promise to pay back when you receive your next pay cheque, usually in two weeks or less.

Using a payday loan company will not help you build a credit history. Most payday loan companies only report to the credit bureaus when loans are not repaid.

There are other aspects of payday loans to consider. First, they have very high service charges. Second, by borrowing ahead of your payday, you can easily get trapped into a cycle of debt, where you are always running out of money before your next pay cheque arrives.

If you need to use a payday loan service, find out exactly what all the fees are before you sign the contract. Do not sign an agreement that says your employer will take money owed from your pay cheque.

Source: *The cost of payday loans*, Financial Consumer Agency of Canada: www.fcac-acfc.gc.ca (Search "Payday Loans" then click on "FCAC –Publications – The Cost of Payday Loans")



Kim needs to borrow \$300 for 14 days. Here's how it works out with four different loan options:



	Line of credit	Overdraft protection on your bank account card	Cash advance on your credit card	Payday loan
Interest	\$1.15	\$2.42	\$2.13	—
Fees	vary	vary	\$2.00	\$50.00
Total cost of loan	\$1.15	\$2.42	\$4.13	\$50.00
% charged on amount borrowed	10%	21%	36%	435%



Use this chart to help you compare credit options:

	Option #1	Option #2	Option #3
Name of credit:			
Is there an introductory interest rate? What is it and how long does it last?			
After that, what will my interest rate be?			
Is there an application fee?			
Are there processing fees?			
Is there an annual fee?			
Is there a late fee?			
Is there an over-the-limit fee?			
Are there any other fees, like account closing fees or balance-transfer fees?			
How is my minimum payment calculated?			
How much time am I given before I have to pay interest?			
What will my credit limit be?			
Will the company inform me if I am about to go over my credit limit?			
What happens if I go over my limit?			
What happens if I have trouble paying my bill?			
Can I pay my bill online or over the phone?			
How will the company inform me of any changes in my contract?			
What other benefits does this card offer? (e.g. reward programs, insurance, discounts, etc.)			



Building Your Credit History

Here are some tips to help you build or repair your credit history:

- Pay your bills on time.
 - Start saving a little money every month.
 - Know your personal budget so you know how much debt you can handle.
 - Start slowly with a small, short-term loan. Only borrow what you can repay.
 - Get a letter of recommendation from a company that you have made regular payments to in the past, such as a utility, telephone company or rent-to-own furniture outlet.
 - Build a steady work record.
 - Build a good relationship with a bank by opening an account and using it responsibly. Save even a small amount regularly and avoid overdrawing your account. Ask to meet the manager. When you have a good relationship with the bank, you can work with them on qualifying for a loan or a line of credit.
 - Go to your own bank first to apply for a loan or credit card. Banks usually prefer to give credit to current customers. Make an appointment with a loan officer or personal banker to discuss your application.
 - When you meet with a potential creditor, bring supporting documents with you, e.g. credit report; budget and tracking sheets; annual bank account statements; letter from your employer stating your income and work history; and car, mortgage, rent and utility bill receipts.
- Think about how likely you are to be approved for credit before you apply. You do not want too many inquiries on your credit file.
 - If getting a bank credit card is difficult, apply for a gas or store card. They are generally easier to qualify for.
 - Try to get an RRSP loan.
 - Get a secured credit card. You will have to give a deposit, but after a period of regular payments you may be able to get an unsecured credit card.
 - If you have had delinquent accounts and are now applying for a credit card or a loan at a bank, attach a letter with your application explaining your situation and why it is different now. Include with your application your budget, expense tracking sheets, bank account statements, and any car, rent or mortgage payment receipts.
 - Communicate openly with your financial institution. If you have questions or concerns or if you are going to have difficulties meeting your credit obligations, speak personally with them.



managing your debt

If you're having trouble paying your bills on time, are unable to pay off your full balance on your credit card, and/or are behind on your loan payments then it's time to make debt management a priority.

The key to any debt management plan is having a very solid budget that includes some money for debt repayment. The more money that can go towards debt, the faster it will be repaid.

Here are some other helpful tips for managing your debt.

- Always make your payments on or before the due date. This way you'll have a better chance at asking for a lower interest rate or be approved for more credit.
- If you have difficulty paying your bill one month or made a late payment by mistake, call the creditor and explain your situation. They are usually willing to help you work something out.
- Evaluate your lifestyle and make changes in your spending patterns to keep yourself from getting further into debt. Watch impulse spending!
- If necessary, sell unsecured assets, like furniture or a second car, to pay off your debts.
- Borrow from relatives or friends, but remember to make arrangements to pay them back.
- Deal with trustworthy companies. Stay away from payday loans!
- Contact a local non-profit credit counselling service for unbiased professional advice. Check Credit Counselling Canada's website at www.creditcounselling.ca
- Attempt to pay a lump sum payment (e.g. from a tax return) to your creditor. This amount may be less than what you owe, but the creditor may accept it as a final payment. Get their agreement in writing.
- Try to set up a repayment plan with your creditor. Explain your situation and try to negotiate a lower monthly amount to repay.
- If you have a number of outstanding credit card debts, you may be able to get a debt consolidation loan. This kind of loan allows you to pay off your high interest rate credit card debts all at once and be left with one loan debt to repay, at a lower rate. To be granted a debt consolidation loan, you must have a good credit history. Banks offer the safest and lowest-interest debt consolidation loans. Caution! If you pay off your credit cards this way, consider cancelling or not using the credit cards until the loan is paid off.



POWER PAYING

Power paying your debts requires some discipline. To power pay, you need enough money to pay the minimum amount owing on all your debts—plus a little extra—each month.



Kim's debts:

Creditor	Amount Owing	Interest Rate	Minimum Payment	Extra Payment	Priority
Store card	\$1,500	28%	\$40	\$60	1
VISA	\$900	17%	\$20		2
Bank loan	\$2,500	7.5%	\$60		3
TOTAL	\$4,900		\$120	\$180	



If Kim just made the minimum payments on these debts, she would pay \$120 per month and it would take 7 years and 7 months to pay her debt off. She would also pay \$3,054.12 in interest.

But if, for example, she could afford an extra \$60 each month, she could pay a total of \$180 each month on her debts. In 2 years and 9 months she would pay her debt off and pay \$947.45 in interest, a savings of \$2,086.67!

So the question is: Which debt would get the extra payment?

There are two options:

- Pay off the debt with the highest interest rate first to save interest charges.
- Pay off the smallest debt to get rid of one debt.

Say Kim decides to pay off the highest interest rate debt first. She would make all the minimum monthly payments on each debt and then pay an extra \$60 towards the store card debt. That means she would pay \$100 on the store card until the debt is paid in full.

She would then take that \$100 and apply it to one of her other debts each month. For example, she could combine the \$100 plus the \$20 minimum payment to pay off her Visa card debt. Her monthly payments to VISA would become \$120.

When the VISA card debt is paid in full, she would have \$120 each month, plus the minimum monthly payment of \$60, to put towards her personal loan. A total of \$180 per month will help her pay down her personal loan very quickly!

At the end Kim will have power paid her way to being debt free! Then she can power save the money she was using to pay debts.



Remember!

You'll have more success with this method if you stop borrowing more money and stop using your credit cards while you are power paying your debts.

www.powerpay.org



getting help with your debt

DEBT REPAYMENT PROGRAMS

If you are still having trouble managing your debts, you may want to consider a Debt Management program offered by an accredited agency. This type of program allows you to pay all your outstanding debts in full at a lower interest rate over a period of time. The time depends on your ability to pay. A typical payment period is three to four years.

In Alberta, you may be looking at a “Orderly Payment of Debts” program. This is a legal option in which you have protection from actions your creditors may take. “Money Mentors” is the exclusive provider of OPD in Alberta. After the debt has been paid in full, OPD remains on your credit history for two years.

OPD offers a number of benefits:

- Gives you access to the services of a debt counselor.
- Is not as damaging to your credit score as a bankruptcy would be and shows creditors that you have paid back all your debts.

CONSUMER PROPOSAL

A consumer proposal is a legal option in which you make an offer to your creditors that would give them more money than if you were in bankruptcy. You may propose to pay a lower amount each month over a longer period of time or you might propose that your creditors accept a percentage of what you owe.

You must work with a bankruptcy trustee to submit a consumer proposal.

BANKRUPTCY

Bankruptcy is the legal option that provides immediate relief to someone in debt by stopping all legal actions by creditors, such as garnishments and repossessions. Bankruptcy allows the “unfortunate but honest debtor” to start over by eliminating debts.

Before you consider bankruptcy, you should know:

- Bankruptcy isn't free! You may lose assets, such as your home, and you will have to pay a fee.
- When you are in bankruptcy, you keep a portion of your income to live on based on set guidelines. The rest will go to your creditors.
- In Alberta, your first bankruptcy is recorded on your credit history for six years from the date of discharge. Your second for 14 years.
- Your creditors keep private records for a long time. You might have difficulty doing business with them again in the future.



what can creditors do?

COLLECTION AGENCIES

When you are seriously in arrears, your debt is sent to a collection agency who then contacts you to get the money you owe.

If that happens, you should know what they can and cannot do.

For example, in Alberta:

Collection agencies can:

- Call you between 7 am and 10 pm.
- Contact family members, friends, neighbours and your employer for your home or work phone number or home address.
- Contact you at work, unless you ask them not to and you arrange for another place for them to contact you.
- Contact a cosigner to your debt.
- Contact your employer one time to confirm your employment and the business address.

Collection agencies cannot:

- Contact you more than three times in seven days.
- Threaten to garnishee your wages (this can only be done with a court order).
- Discuss your debt with anyone but you.
- Use threatening, intimidating, offensive or profane language.
- Give any false or misleading information about you.
- Bring in the police or send you to jail.
- Take your property unless it is collateral for the debt.
- Expect family or friends to repay your debts.
- Call you or your family so often that the number of calls received could be considered harassment.

REPOSSESSION

If you have promised a financial and/or physical asset—such as a vehicle, savings bonds, furniture, TV, stereo or home—as collateral against a loan, that asset can be taken by the creditor if you do not make your loan payments.

GARNISHMENT

Garnishment is a legal process that a creditor takes after they have received legal permission to do so. This permission is called a judgment. Creditors may use this judgment to take the money you owe them from your wages from your employer, from your bank account, or from accounts receivable (money owing to you by others). They may also seize property if its value is more than what is “exempt” in your province.

If you owe money to the same bank that you deal with, your bank does not need to get a judgment to move money from your bank account to pay your overdue debt. This is called “Right of Set Off.”



GLOSSARY

Arrears	Missed payments. As soon as you are one month behind in payments, you are in arrears.
Cash advance	Immediate access to cash from your credit card. Interest is charged from the withdrawal date.
Cosigner	Someone who takes joint responsibility to pay a loan or credit card with another person.
Credit	Access to borrowed funds.
Credit bureau	Company that collects, records and distributes information on individuals' credit history (e.g. Equifax or TransUnion).
Credit card	Card allowing the purchase of goods or services up to a set credit limit; interest is charged on unpaid balances every month.
Creditor	Person or company that lends money.
Debt	Money you owe.
Debt load	The Percentage of your income that you owe in debt.
Debt capacity	This refers to the amount of debt you have the potential to owe.
Debt service ratio	Used by banks to make sure you can pay off a loan. DSR is calculated (DSR) by dividing your total annual debt payments by your annual gross family income.
Finance company	Lender other than the common banks and credit unions. They usually lends at a higher interest rate and/or charges higher service fees.
Garnishment	A court order that allows the creditors to take a percentage of a debtor's pay cheque or money in the debtor's bank accounts.
Interest rate	Percentage a company charges you for borrowing money. Often referred to as APR (Annual Percentage Rate).
Non-sufficient funds	A cheque written when there is not enough money in your account (NSF) cheque to cover that payment. Also known as a bounced cheque. A fee is charged, usually a minimum of \$25.
Overdraft Protection	Line of credit to protect you from non-sufficient funds in your bank account.
Payday loans	High service fee loans that you take out before payday and then pay back on your next payday.
Waive a fee	Not charging a fee for a certain service.



resources

Credit Bureaus

Equifax Canada Inc.

Consumer Relations Department
 Box 190, Jean-Talon Station
 Montreal, Quebec H1S 2Z2
 Toll-free: 1-800-465-7166
 Fax: (514) 355-8502
 Email: consumer.relations@equifax.com
 Website: www.equifax.ca

TransUnion of Canada Inc.

Consumer Relations Centre
 Box 338, LCD1
 Hamilton, Ontario L8L 7W2
 Toll-free: 1-800-663-9980
 Website: www.transunion.ca

To Find an Accredited Member of Credit Counselling Canada

Credit Counselling Canada
 Website: www.creditcounsellingcanada.ca
 Go to the “We Can Help” tab

Alberta

Money Mentors.
 Website: www.moneymentors.ca
 Toll free: 1-888-294-0076
 In Calgary, call (403) 265-2201
 In Edmonton, call (780) 423-5265

Credit Counselling Society
 Website: www.nomoredebts.org
 Toll-free: 1-888-527-8999

Alberta Government Services Consumer Information Centre
 Website: www.servicealberta.gov.ab.ca
 Toll-free in Alberta: 1-877-427-4088

British Columbia

Credit Counselling Society of British Columbia
 Website: www.nomoredebts.org
 Toll free: 1-888-527.8999

Manitoba

Community Financial Counselling Services
 Tel: (204) 989-1900
 Website: www.cfcs.mb.ca

Credit Counselling Society
 Website: www.nomoredebts.org
 Toll-free: 1-888-573-2383

New Brunswick

Credit Counselling Services of Atlantic Canada Inc.
 Website: www.solveyourdebts.com
 Toll-free in Atlantic region: 1-888-753-2227

Newfoundland and Labrador

Credit Counselling Services of Atlantic Canada Inc.
 Website: www.solveyourdebts.com
 Toll-free in Atlantic region: 1-888-753-2227

Nova Scotia

Credit Counselling Services of Atlantic Canada Inc.
 Website: www.solveyourdebts.com
 Tel: (902) 423-3236
 Toll-free in Atlantic region: 1-888-753-2227

Ontario

Credit Counselling Society
 Website: www.nomoredebts.org
 Tel: 1-888-527-8999
 Credit Canada Debt Solutions
 Website: <http://creditcanada.com>
 Tel: 1-800-267-2272



Prince Edward Island

Credit Counselling Services of Atlantic Canada Inc.

Website: www.solveyourdebts.com

Toll-free in Atlantic region: 1-888-753-2227

Family Service PEI

Toll Free: 1-866-892-2441 (PEI only)

Website:

www.familyservice.pe.ca/credit-counselling

Québec

Le Réseau de protection du consommateur du Québec

Website: www.consommateur.qc.ca

Toll-free: 1-888-672-2556

Services Credit Conseil/Credit Counselling Services of Atlantic Canada Inc.

Website: www.solveyourdebts.com

Toll-free in Atlantic region: 1-888-753-2227

Territories

Credit Counselling Society of British Columbia

website: www.nomoredebts.org

Toll-free: 1-888-294-0076

Saskatchewan

Credit Counselling Society

Website: www.nomoredebts.org

Tel: 1-888-527-8999

Online

Canadian Bankers Association: www.cba.ca

Canadian Consumer Information Gateway: www.consumerinformation.ca

Canada Mortgage and Housing Corporation: www.cmhc.ca

CanLearn: www.canlearn.ca

Financial Consumer Agency of Canada: www.fcac.gc.ca

Consumer Information - Industry Canada: www.ic.gc.ca - "Just for Consumers" tab

Power Pay: www.powerpay.org

Get Smarter About Money: www.getsmarteraboutmoney.ca

Books

Credit for Canadians.

Mike Morley, 2009.

Debt-Free Forever.

Gail Vaz-Oxlade, 2009.

The Canadian Student Financial and Survival Guide.

Graham McWaters and Winthrop Sheldon, 2005.

The Wolf at the Door.

Mark Silverthorn, 2010.