

8) Credit

Buying with credit lets you purchase something and use it while you are still paying for it.

There are two common types of credit:

Credit Cards

- Offered by credit card companies, department stores and other financial institutions.
- Interest rates can range from 9% to 29% a year.
- You will receive a monthly bill giving details of what you spent, how much you owe, payment date and the minimum payment amount.
- Interest is charged on the unpaid amount of the bill.

Mortgages and Loans

- Used for larger purchases such as a house, a car or a student education.
- You pay back a fixed amount each month until the loan is paid off.



- If you don't pay your loan, the lender can take your purchase and sell it, to cover the loan. For example, they can take your car if you fail to pay your car loan on time.

Types of credit cards

Common types of credit cards:

- Visa
- Mastercard
- American Express

Many large stores have credit cards too. Some of these cards are only valid in that store.

8 a) Do's and Don'ts of Credit Cards

Do's	Don'ts
Pay your bills on time.	Give personal information or your credit card number over the phone unless dealing with a company you trust.
If you can't pay more, pay at least the minimum.	Accept credit whenever it is offered to you.
Call and explain to your credit card company if you can't pay.	Lend your card to anyone.
Deal with companies you know and trust.	Keep buying on credit because it is easy.
Choose credit card based on interest rate.	

8 b) Applying for a Credit Card

Shop around for a card

- There are different types of credit cards.
- Different credit card companies charge different interest rates.
- Some credit cards charge an annual fee and some don't.

Advantages and disadvantages of credit

Advantages

- You can buy something right away and pay for it later.
- You can pay for an unexpected expense.
- You can track how much you spend each month.
- You will need a card to buy or book something over the internet, such as concert tickets, car rental or books.
- You don't have to carry cash.
- Good use can help you build your credit history.

Disadvantages

- It is easier to buy something you did not plan for or do not need.
- Interest can cost a lot.
- It can create financial stress if you buy a lot of stuff on credit.
- Careless use of credit can mess up your credit history so you can't borrow later.

Credit approval process

You fill out an application.



Card company does a credit check on you.



Your personal information is sent to the credit bureau.



The credit bureau sends your credit history back to the credit card company.



Credit card company accepts or rejects application based on your credit history, debt, etc.

Once you get your card...

- Read your cardholder agreement carefully. It tells you how to use your card and what rules apply for payment.
- Keep a record of your account number and the phone number of the credit card company.
- Call your credit card company right away if your card is lost or stolen. If you find it later, after they have sent a new one, cut the old one up.

8 c) Your Credit History

Most people have no idea what is in their credit report.

If you have ever applied for a loan or a credit card or paid monthly bills, have a cell phone, you will have a credit history. It is a report with details about your loans, credit cards, bill payments, employer, home address, etc.

- It is a good idea to check your credit history regularly.
- You can get a copy of your credit history for free once a year.

Your credit history is important

Good credit history can make future borrowing easy.

Example: It will be easy for you to get a car, a personal loan or to rent an apartment.

- Before giving you credit, all businesses will check your credit history.
- Landlords may check credit history.
- After giving you credit, that business will send your payment information to the credit bureau.
- When you want to borrow money in the future, the bank will check with the credit bureau to see if you have a good credit history.
- Information stays in your record at the credit bureau for 7 years.
- Always pay your bills on time. Late payments stay on your record for 7 years. The consequences of an unpaid bill are the same whether it is for \$5 or \$5 million.

Why do I need to check my history?

No one can perform a credit check on you without your permission.

- You will know which business asked for your credit report.
- You will know what new accounts have been opened in your name.
- You will know if someone is using your name fraudulently to open accounts.
- It is up to you to ensure your credit history is correct.

Getting your credit history

There are two credit bureaus in Canada that collect credit information on you. Get your report from both.

1. Equifax

National Consumer Relations

PO Box 190, Jean-Talon Station,

Montreal, QC H1S 2Z2

Toll free Tel: 1.800.465.7166

Website: www.consumer.equifax.ca

- For online access to your credit report, visit www.equifax.ca.

There is a charge of \$15.50 fee for online access.

- Your credit report will be sent to you by mail.

2. Trans Union Canada

Consumer Relations Centre

PO Box 338 LCD 1

Hamilton, ON L8L 7W2

Toll free Tel: 1.800.663.9980

- For online access to your credit report, visit www.tuc.ca. You can sign up for a monthly monitoring account for \$16.95 per month.
- Your credit report will be sent to you by mail.

Don't pay anyone to get or fix your credit

- No one can fix your credit even if you pay them.
- There is no overnight solution to fixing bad credit.
- Fixing credit takes time and you can do it yourself by not accepting new credit, paying down your bills and making payments on time.
- You don't need to pay someone to fix inaccuracies in your credit report. You can write to the credit bureau directly. It is free!



Only responsible credit practices over time can improve a poor credit history.

Equifax website

8 d) Credit Card Statement

Each month, your credit card company will send you a statement including:

- How much money you owe.
- Due date for payment.
- Minimum payment required.
- Interest charges.
- Where each purchase was made.
- How much you spent on each purchase.

Key terms

Credit bureau: An organization that keeps your credit records.

Credit rating: A history of how well you pay back the money you owe.

Collateral: Something you agree to give the lender if you do not pay back the loan.

Default: When you cannot pay back your loan.

Lender: The person or place from which you borrow money.



Annual fee: A fee paid once a year to the credit card company.

Monthly statement: A report explaining what you bought, how much you owe and when you have to pay.

Due date: The last date you can pay without a fine.

Credit history: A record of the money you have borrowed in the past.

Sample Credit Card Statement

enviro Classic

VISIT OUR VISA ONLINE ACCOUNT INFORMATION SERVICE AT myvisaaccount.com

FOR STATEMENT INQUIRIES PLEASE CALL 604-877-4599

FOR LOST OR STOLEN CARDS PLEASE CALL 604-708-7810

Balance Summary

Previous Balance	\$1,001.16
Payments	\$1,100.00
Credits	\$182.38
Purchases & Debits	\$2,016.13
Cash Advances	\$0.00
Overlimit	\$0.00
Past Due	\$0.00
Total Interest	\$0.00
New Balance	\$1,734.91

Account Summary

Account Number	00000000000000000000
Statement Date	DECEMBER 26, 2005
Number of Days in Billing Cycle	30
Credit Limit	\$9,500.00
Available Credit	\$7,765.09
Minimum Payment	\$52.00
Payment Due Date	DECEMBER 26, 2005

Interest Summary

Average Daily Balance Subject to Interest	Daily Interest Rate	Corresponding Annual Percentage Rate	Periodic Interest
Purchases \$0.00	0.5048%	18.50%	\$0.00
Cash Advances \$0.00	0.5048%	18.50%	\$0.00
			Annual Percentage Rate 18.50%

Important Messages

YOUR VISA PURCHASES COULD BE FREE. JUST USE YOUR VISA CARD THIS MONTH FOR A CHANCE TO WIN YOUR PURCHASES FOR THE MONTH, UP TO \$100,000. THERE'S A WINNER EVERY DAY OF THE YEAR. NO PURCHASE NECESSARY. CALL 1-888-298-9944 OR VISIT WWW.VISA.WHATYOUBUY.CA FOR CONTEST DETAILS.

HUNDREDS OF VALUABLE IN-STORE AND ONLINE SHOPPING AND TRAVEL DEALS, CONTESTS AND MORE. ONLY VISA CARDHOLDERS PICK THE PERKS AT WWW.VISAPERKS.CA.

SAY HELLO TO YOUR NEW ENVIRO VISA STATEMENT. OUR NEW STATEMENT MAKES IT EASY TO FIND THE INFORMATION YOU ARE LOOKING FOR.

Transactions

Trans Date	Posting Date	Amount	Particulars	Reference Number
11-19	11-17	251.90	SUPER VALU @ VANCOUVER BC	7450001510463627121794 5411
11-24	11-17	557.91	LINENS N THINGS #715 COQUITLAM BC	74500015310461328594619 5949
11-08	11-08	\$1,100.00	PAYMENT RECEIVED - THANK YOU	7450001531210400997777
11-07	11-09	1182.38	LINENS N THINGS #715 COQUITLAM BC	7450001531210400997777
11-16	11-16	921.00	AMNESTY INTERNATIONAL OTTAWA ON	74500015204950126210804 5949
11-24	11-25	935.50	TAMARIND BISTRO VANCOUVER BC	74500015320846312106398 5812
11-25	11-25	664.93	TSC #X604119091 808-292-8088 ON	74537085329909635431562 5969
11-29	11-25	9121.95	TSC #X604119091 808-292-8088 ON	74537085329909635431564 5969
11-25	11-28	946.18	GROPPERSORUMPT0292 VANCOUVER BC	745118552982325594294 5912
11-25	11-28	664.78	ARMY & NAVY DEPT STORE @ VANCOUVER BC	74537085310430162798592 5311
11-30	12-02	91,270.00	CBIC #55255 COQUITLAM BC	7452906324920162196800 6300

Payment you must make

account number: 35200 minimum payment: \$52.00 payment due date: 12 / 26 / 05 your new balance: \$1,734.91 enter amount paid: _____

Your transactions this month

35200 Interest rate charged by your card: 18.50% 96 Date you have to pay by: 12/26/05

enviro VISA

Phone 604-877-4599 and visit us online at myvisaaccount.com

Vancity

payment options

- online at vancity.com
- by phone 604-877-7000
- at 11888 VANCITY
- at any Vancity branch
- by mail to PO Box 4300, STN. Terminal, Vancouver, BC V6B 3Z7

Page 1 of 2

05/05/05

8 e) How Much Can I Afford to Borrow?

Step 1	Step 2	Result
Calculate your gross monthly income, such as pay, child tax credits, etc.	Add all your payments, such as rent, utilities, car loan, student loan, credit card payments, etc.	Your bill payments should total to 40% or less of your gross monthly income. If they are more than 40% you should not borrow more.

The following calculation gives you an idea of how much you can afford to borrow:

Step 1 – Income	Step 2 – Expenses	Result – What you can Afford to Borrow
Example 1: \$1,500	\$1,200	$(\text{Expenses} \div \text{income}) \times 100$ $(1,200 \div 1,500) \times 100 = 80\%$ Your expenses are 80% of your income. You can't afford to borrow in this case.
Example 2: \$3,500	\$1,200	$(1,200 \div 3,500) \times 100 = 34.28\%$ You can afford to borrow another 6% or up to \$200.
My income: \$ _____	My expenses: \$ _____	Result: $(\text{_____} \div \text{_____}) \times 100$ $= \text{_____}\%$

Before you spend...

Try to save the money to pay your bill in full.

A Matter of Interest

Store card vs. regular credit cards

- Department store cards charge a higher interest rate than a regular credit card.
- The cost of interest could be twice as much, if not more, than that charged by a regular credit card.

Example:

Your purchase price: \$1,000

Minimum payment: \$30

	Department Store Card	Regular Credit Card
Interest rate	28%	18%
Number of months to pay off debt	66	47
Interest cost	\$956.35	\$396.72
Total cost (actual price plus interest)	\$1,956.35	\$1,396.72

Source: www.creditcanada.com

The true cost of paying the minimum

- Although credit card companies will suggest a minimum payment amount, it is always a good idea to pay the bill in full or as much as you can.
- It will take you a long time to pay off your purchase if you pay only the minimum.
- Paying only the minimum costs a lot of money.

Example:

Your purchase price: \$1,000

Minimum payment required: \$30

Interest rate: 18%

Payment amount	\$30	\$50	\$200
Number of months to pay off debt	47	24	11
Interest cost	\$396.72	\$197.83	\$91.62
Total cost (actual price plus interest)	\$1,396.72	\$1,197.83	\$1,091.62

Source: www.creditcanada.com