



Money Mornings: Credit and Financing

www.nomoredebts.org | www.mymoneycoach.ca

Agenda



- Costs of credit
- Credit reports, ratings and scores
- Facts and myths about credit
- Improving your credit

Objectives



By the end of the session, you will be able to:

- Describe the costs of credit
- Order and understand your own credit report
- Describe two ways to improve your credit score

What is Credit?

1. Borrowing money now with the promise to pay it back later, possibly with interest.
2. The borrowing capacity of an individual.



Using Credit



**What are some things
we typically use credit
for?**

Using Credit



Things we *need!*
Things we *want!*
**Things we didn't plan
for!**



Using Credit Cards Wisely

Amount Borrowed	Interest Rate	Monthly Payment	Time to Pay Debt	Interest Paid	Total Cost
\$5,000	18.9%	3%	20 years	\$5,300	\$10,300
\$5,000	9.9%	3%	13.5 years	\$1,828	\$6,828
\$5,000	18.9%	\$325	1.5 years	\$771	\$5,771

Interest Rate Comparison



- Pay day loans: annualized interest is up to 599.84%
 - 15-23% over a 2 week period
- Bank Overdraft: 21% APR
- Credit Card: 19% APR
- Line of Credit: 6% APR

What is a Credit Report?

A detailed history of an individual's credit behaviour over the past number of years.



What's On Your Credit Report?



- Personal Information
- Hard Hits
- Soft Hits
- Public Records
- Consumer Statement
- Trade lines/Credit Ratings

Hard and Soft Hits



Hard hits are inquiries for the purpose of approving a credit application

- They can impact your credit viability

Soft hits are inquiries for information purposes

- They are shown only to you

Credit Ratings



A credit rating is the lender's record of your payment history on your account.

- It uses a letter (type of credit) and a number (payment status) to show how you're doing.
- Each account/trade line will have its own rating

Credit Ratings



Types of Credit:

- Revolving: R
- Installment: I
- Open: O
- Mortgage: M
- Line of Credit: C
- Lease: L



Credit Ratings

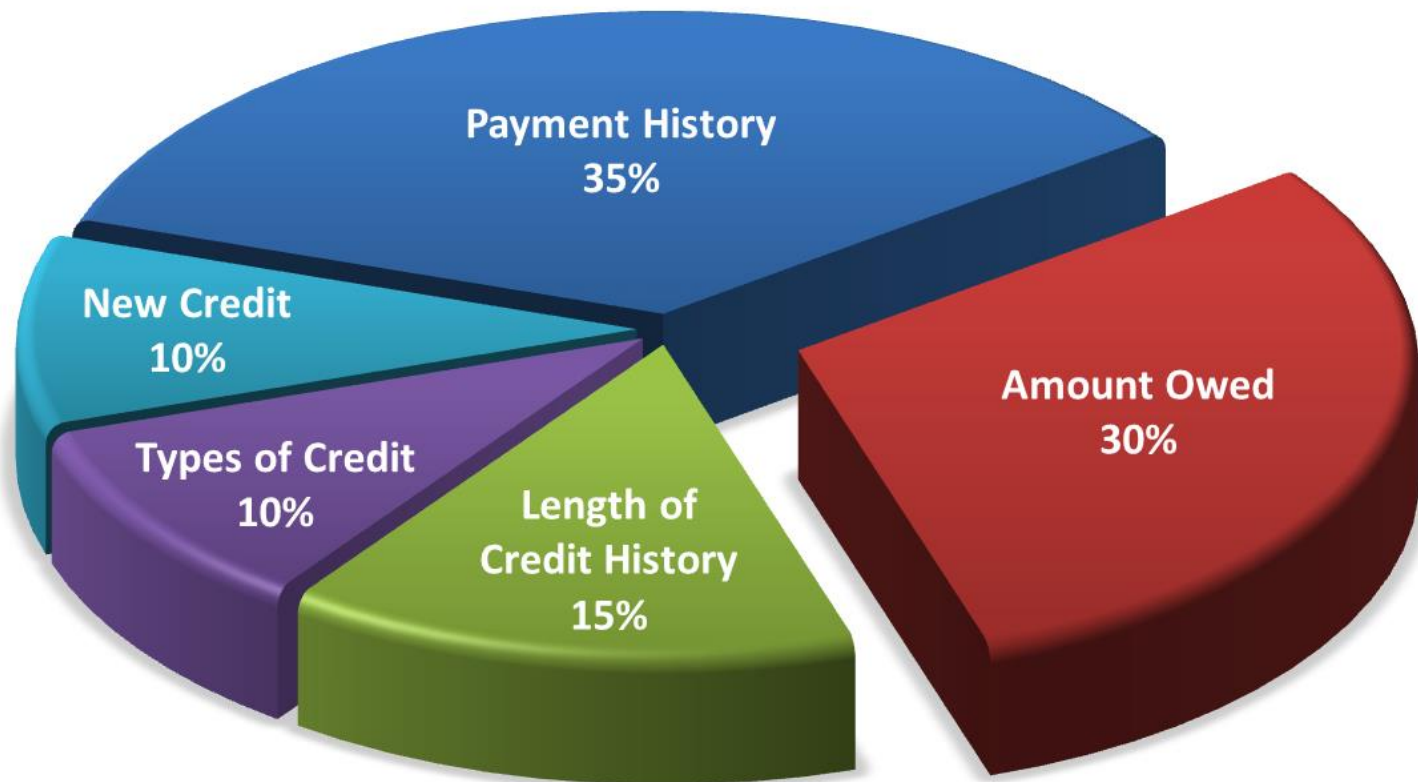
Payment Status	
Too new to rate	0
Paid as agreed	1
Paid late but within 30 days	2
Paid up to 60 days late but not more than 90 days; 2 payments past due	3
Paid up to 90 days late but not more than 120 days; 3 payments past due	4
Account is at least 120 days overdue but not rated 9 yet	5
Making payments under consolidation order, debt repayment or similar arrangement	7
Repossession	8
Bad debt; placed for collections; settled debts; bankrupted debts	9

Your Credit Score



- Your credit score is a predictor that lenders use to see how likely you are to pay back your debts
 - Credit scores range from 300-900
 - A higher score means less risk to a lender.

Your Credit Score



Credit Reporting Agencies



Equifax - www.equifax.ca

1-800-465-7166

Transunion - www.transunion.ca

1-800-663-9980

Credit Report Facts



- It's free to check your credit report 1x/year
- Checking your own credit report does not affect you negatively
- Creditors choose what they report to each agency, so you should check your own report with both companies
- If there are mistakes on your credit report, it is up to you to get them fixed

Who Wants to Know?

- Lenders
- Employers
- Landlords



Improving Your Credit



You can improve your credit but it takes time.

- Make all of your payments on time
- Pay your credit card in full each month
- Use a secured credit card
- Get a cell phone contract you can afford
- A single purchase now and then will build credit

TRUE or FALSE



Good credit is everything.

FALSE

Good Credit Is Everything

Not at the expense of:

- High debt loads
- Making only minimum payments
- Money stress
- Money fights with your family
- Self-worth



Does Not Build Credit



- Visa Debit card
- Pre-paid credit cards
- Pre-paid cell phones
- Payday loans

Final Thought



Credit is neither good nor bad. How it is used makes it either a tool or a weapon.

What is Financing?



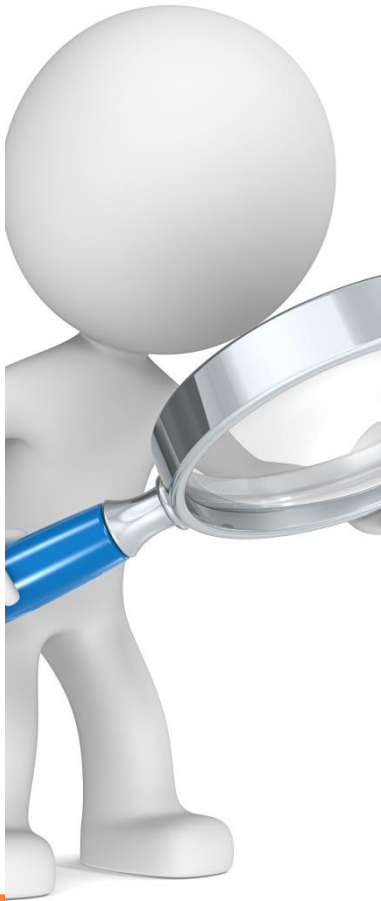
The act of obtaining money from an outside source to purchase a good or service, with interest.

Why Do We Finance?



- Purchase is too large to pay cash
- Deal is too good to pass up
- We can't afford it but we want it anyway
- Deferred payment
- Improve credit

What Do Creditors Look for?



- The 5 C's
- Credit score
- Debt ratios

5 C's of Credit



- Character
- Capacity
- Capital
- Collateral
- Conditions

Debt Service Ratios

- Calculated by:

Monthly housing costs + debt
gross family income

- Lenders will use the ratio to determine if you meet their criteria



Types of Financing



There are essentially only two types of financing:

- Secured
- Unsecured

Secured Financing



- Money borrowed is secured to an asset
- Less risk to the lender
 - The lender can take the asset back and sell it to pay off some or all of the debt if not paid
- Repossession and foreclosure laws are provincially dictated

Unsecured Financing



- Lending that is not secured to any asset
- Higher risk for the lender
 - Likely higher interest rates
- May be subject to legal action if the debt is unpaid

Installment Loans



- Monthly payments are made over a specified term of repayment
- Typically secured debt
- Interest rates vary
 - Unsecured installment loans will have a higher interest rate
- Be cautious of insurance

Vehicle: Lease vs. Buy



- Leasing means you are paying to use a new vehicle but you don't own it – it's a long term rental
- Buying means once you've paid it off, you own the vehicle

Advantages for Leasing



- Use of a new vehicle
- Deferred taxes as they are included in the monthly payment
- Can get “more car” for the monthly price
- Ability to write off payments in certain employment situations

Disadvantages of Leasing



- Contractual obligations
 - Annual kilometer limitations
 - Required maintenance schedule
- Potentially higher costs to buy out vehicle at the end of the lease
- Insurance may be higher
- Not an asset

New vs. Used Vehicles



Advantages for new vehicles:

- Less maintenance to start
- Warranty
- Lower financing rates available

Advantages for used vehicles:

- Lower price
- Slower depreciation

Beware Of

- Rolled over loans
- Long amortization periods
- 0% financing
 - Compare total cost with cash incentives if you were to finance through another lender



Mortgages



- Secured loan to purchase a home
- The maximum amortization period is 25 years
- Down payment must be 5% of first \$500k, 10% of \$500k-\$999k
 - Mortgage insurance is required if down payment is less than 20%

Down Payment Options



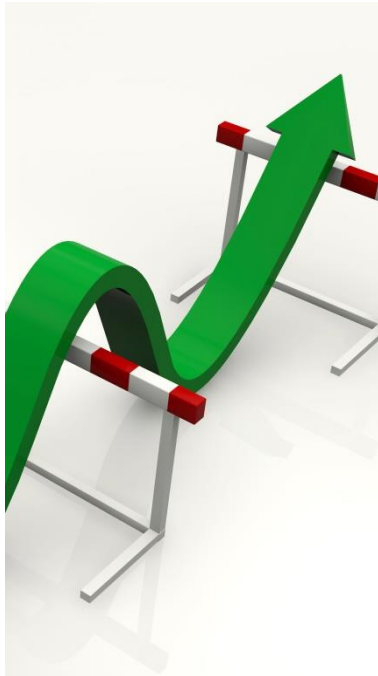
- Savings
- Equity from the sale of your current home
- Borrow from RRSP (Home Buyers Plan)
 - Withdraw up to \$25,000 tax free
 - Must pay it back within 15 years

Repossession & Foreclosure



- Until you have paid off your home, it can be foreclosed on if you miss payments
- Until you have paid off your vehicle, it can be repossessed
 - Seize and/or Sue laws are provincially dictated

Line of Credit



- Secured or unsecured revolving credit
- You can borrow to a specified limit
 - Use as much or as little as you need
- Interest rates and minimum payment requirements vary
- Tempting to have available

Credit Cards



- Secured, unsecured or pre-paid
- You can borrow to a specified limit
- Different interest rates are available depending on the product and your credit history
- Annual fees may apply
- Can build credit if used wisely

Did You Know...



- Interest on cash advances starts immediately
- Credit cards allow you to go over your limit but charge you a fee
- If you are late paying your bill, interest accumulates to the start of your billing period

Joint/Co-Signed Credit



- Credit is obtained with another borrower
- If primary borrower stops payments for ANY reason, creditor will go after the joint/co-signer for funds owed
- Separation and/or divorce agreements do not supersede creditor agreements

Short Term and/or High Interest



- Buy Now – Pay Later
- Secondary lenders
- Title loans
- Payday loans

Retail Credit

**No payments for
18 months!!**

**Pay no interest
for 12 months!!**

**Low introductory
interest!!**



Buy Now, Pay Later

Purchase \$3,000 of furniture at 30% interest over 5 years

No interest, no payments for 18 months!!

Payment frequency	Payment	Total Interest	Total Cost
Monthly for 18 months	\$167	\$0	\$3,000
Monthly for 5 years	\$97	\$2,823.61	\$5,823.61
Monthly for 3.5 years (start after 18 month no payment period)	\$139	\$2,823.61	\$5,823.61



Secondary Lenders

- High interest lenders with a variety of products
- May or may not be secured

Loan amount = \$10,000	
Interest rate	30%
Loan term	5 years
Monthly payment	\$323.53
Interest paid over 5 years	\$9411.80
Total Repayment	\$19,411.80

Title Loans



- Secured debt
- Borrow money and use your vehicle as collateral
- If you cannot pay back the debt, your vehicle will be seized

Conclusion

Now you are able to:

- Describe the costs of credit
- Order and understand your own credit report
- Describe two ways to improve your credit score

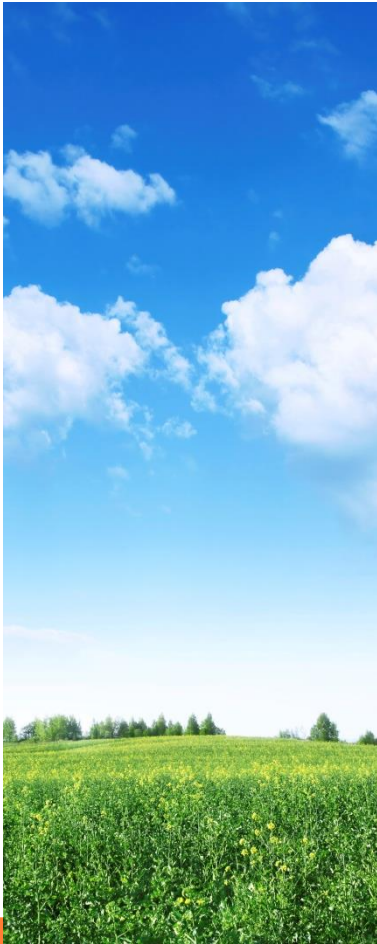


Learn More

- Free tools and resources available at:



- Discover more through our:
 - Monthly newsletter
 - Social media



How We Help



- Confidential, *no-cost* credit and budget counselling
- Debt repayment programs and alternatives
- Consumer workshops on credit and money issues
- Helpful money management tips online:

NoMoreDebts.org myMoneyCoach.ca

1-888-527-8999

TRUE or FALSE



I can afford the minimum payment so it's okay to buy it.

FALSE

Making Minimum Payments

- Making minimum payments is required to have your credit product rated as a 1

\$5000: 19.9% interest, declining balance, paying 2% of balance

- **\$22,416 total interest**
- **65 years to pay off!**



TRUE or FALSE



I need a lot of credit cards to build credit.

FALSE

Building Credit

- More open credit = more risk for your lenders which decreases your credit score
- Having lots of credit available can be very tempting!



TRUE or FALSE



Maxing out my credit card then paying it off builds credit.

FALSE

Max Out/Pay Off



- By exceeding 60% of your credit limit on a regular basis, your credit score will be negatively impacted
- Your lenders will assume that you're over extending yourself financially

TRUE or FALSE



I use my credit card for points so I put everything on it.

IT DEPENDS

Credit Cards for Points



- Are you paying it off in full every month?
- How much are you paying in:
 - Interest? Annual Fees?
 - Does it make sense?
- Missed payments can void your points

TRUE or FALSE



I don't need high limits to build good credit.

TRUE

High Limits



- High limits, even with no or low balances means more risk for your lenders
 - Four \$10,000 credit cards means **RISK** for your lender because you could be \$40,000 in debt tomorrow



TRUE or FALSE



To build good credit, I pay my credit card as soon as I use it.

FALSE



Pay As Soon As I Use

- If you use and pay right away, you aren't building credit
 - A balance owing has to hit your statement before a payment goes through or it always shows you owing nothing



TRUE or FALSE



I need to pay a monthly fee to ensure that my credit and identity are protected.

FALSE

Monthly Credit Check



Checking your credit report one per year with both Equifax and Transunion is sufficient.

- Monitoring is helpful in identity theft situations but not day to day

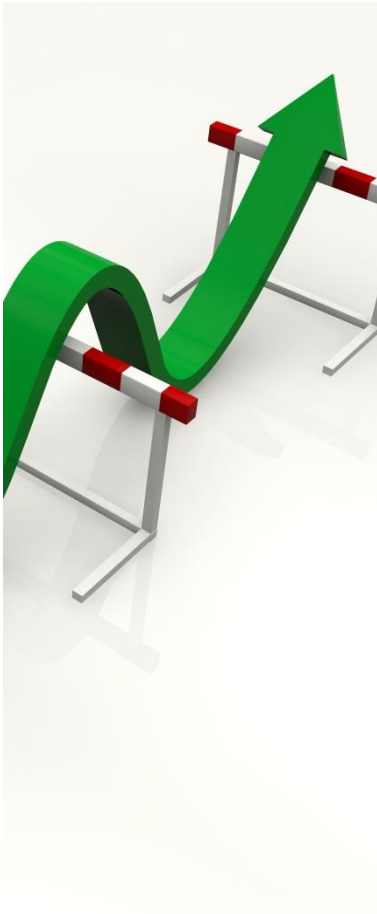
TRUE or FALSE



I can rebuild my credit in 6 months using credit rebuilding companies.

FALSE

Rebuilding Credit



These companies are trying to sell you a higher interest loan

- Making payments will work to rebuild your credit but you're getting into debt to do so.

Some things, like bringing balances down, work faster than others.