



The Cost of Borrowing

Name

Class/Block

Date

So you found a good deal and made a purchase. Should you pay cash or use a credit card? When you use your credit card, the cost depends on when you'll pay it off and what the interest rate is. Unless you pay before the due date, credit adds cost.

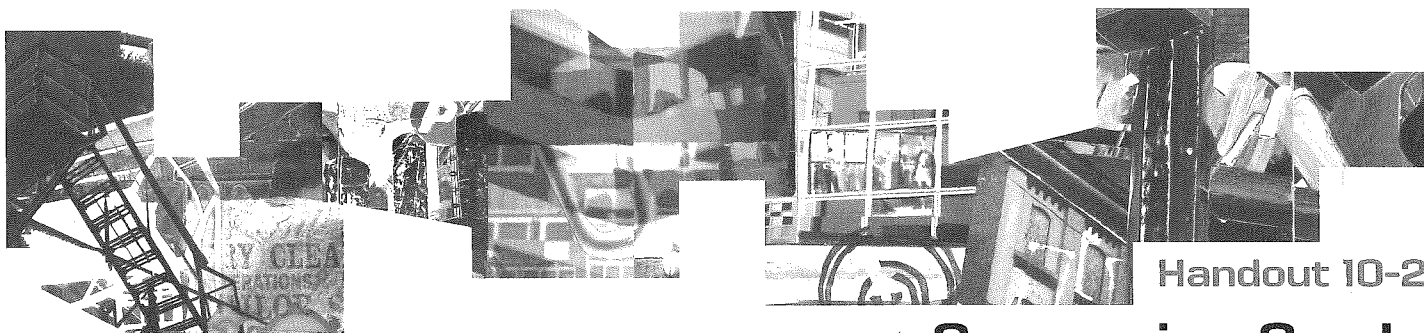
Use the example below to calculate how much it costs to use credit:

Martin is starting university and wants a laptop computer to take notes and write papers. He finds one for \$200 off the regular price – with taxes, it's \$1,498, just below his credit card limit. He has the money in a savings account, but he decides to put the computer on his credit card so he can use his savings for other purchases. When the statement arrives, he doesn't have enough money to pay it, so he makes the minimum payment – 10% of the balance owing, \$149.80. He doesn't pay for the computer for three more months, except for the minimum payment each month.

- 1) If the annual interest rate on his card is 18.9%, what's the true cost of the computer when it's fully paid? (Hint: Work out the monthly interest rate, calculate the added interest and subtract the payments each month. Use an electronic spreadsheet if you choose, but be prepared to explain the formulas used.)

- 2) Calculate the total cost of all items on your Lifestage Character's credit card statement, using the interest rate showing on the statement. Assume that your character makes only the minimum payments for three months.

You can find a variety of credit card cost calculators on the internet. Check out the one at www.bcsc.bc.ca, click Planning 10.



Handout 10-2

Comparing Cards

Name

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Date

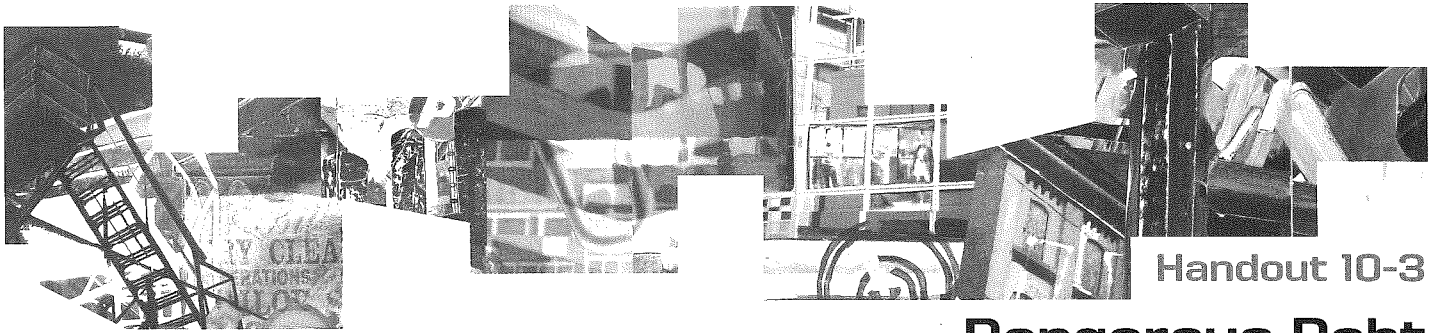
Credit cards are becoming a necessary financial tool in a modern society. They make online buying easy. You need one to rent a car or a hotel room. They're handy when you're travelling or when you run out of cash. Some cards offer a variety of special features.

But not all cards are the same. They charge interest rates that vary from less than 10% per year to almost 30%. Some don't charge interest for several days, but others charge from the day you use them. It's important to know the benefits and the costs of a card before you apply for one.

Assignment

In your group, research the type of credit card you've been assigned:

- 1) Have each member of your group gather as much information as possible about the card, including:
 - the annual interest rate charged on purchases and cash advances
 - when interest is charged for purchases and cash advances
 - any special benefits available to card users, including purchase insurance, credits or points toward future purchases, donations, etc.
 - where the card may be used
 - whether the card is available for young people and any conditions that apply for young people.
- 2) Do your research by using sources like:
 - printed brochures from the company that issues the card (such as a bank or store)
 - websites of the company that issues the card
 - telephone information lines (you can find the phone numbers listed in the telephone book under the name of the company that issues the card)
 - information provided by consumer protection organizations like the Better Business Bureau (www.canadiancouncilbbb.ca)
 - the website of the Financial Consumer Agency of Canada (www.fcac-acfc.gc.ca).
- 3) Gather all the information your group has found, and summarize the most important facts about the credit card.
- 4) Make a chart highlighting the key facts from your research.
- 5) Prepare an oral presentation to the class summarizing your research. Use your chart and any other visual aids to help in your presentation.



Handout 10-3

Dangerous Debt

Name

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Scene 1

Karen just needed a loan to move to Vancouver and start her new job. Her bank wouldn't give her a loan because she was overdrawn and behind on her credit card payments. The advertisement for a "guaranteed" loan looked good.

When she applied, the loan company said all she had to do was pay the first month's loan payment in advance in order to process the application. Karen borrowed \$65 from a friend and paid to apply. She was angry when she received a letter saying her application was refused.

She complained. The company told her that all they guaranteed was to take her application. They refused to refund her money.

Karen was the victim of a loan scam. It's illegal in BC to charge an advance fee for a loan. No legitimate company offers a "guaranteed" loan. Lenders always check your credit record before approving a loan. If you have a poor credit record, it'll be difficult to get a loan from a reputable company. Companies that offer "guaranteed" loans or credit cards are likely to add to your debt without giving anything in return.

Scene 2

Karen decided she would have to clear her credit record. "Fix your credit report," the ad said. Maybe it would be the answer. When she asked, the company explained that it was all legal and would just take a short time. Of course, there was another fee. Karen asked her mom, and paid the \$125.

In return, she got a thick folder of forms and instructions. When she looked closely, she found that they were just copies of internet pages and brochures from Canada's credit agencies. They told her how to correct errors in her credit record. Since her records were accurate, they didn't help her. Some companies even suggest setting up a new identity to get a new credit record – but that's illegal.

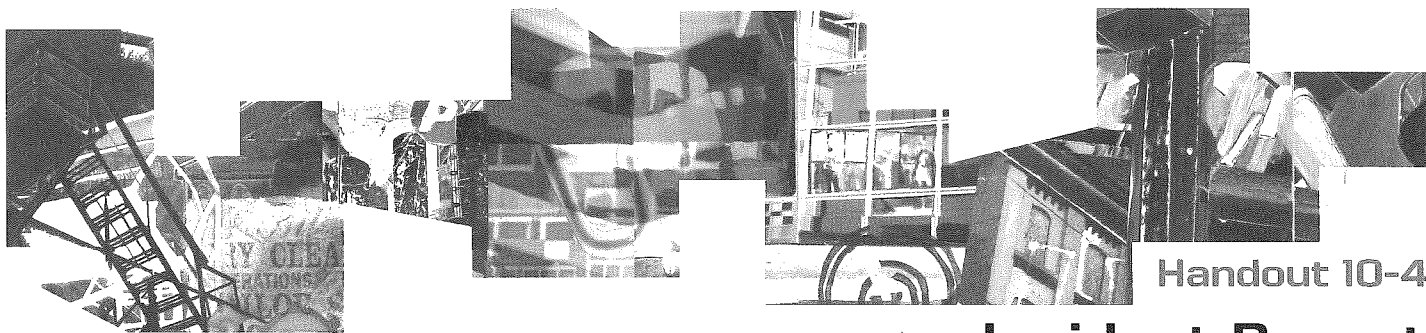
Karen complained to the company and said their folder was not what she was expecting. The company told her that they could fix her report only if there was an error in it. They refused to refund her money.

Scene 3

Karen was getting desperate. She decided to try a paycheck advance company. They told her they would give her a loan if she would assign her first paycheck to the company. She arranged to have her new employer send the information about the job to the company, and then she signed the documents they gave her. Her first paycheck would be \$650. The teller gave her \$450.

"Is that all I get?" she asked. The teller explained that the company deducted some fees from the payment – an application fee, an approval fee, a fee to verify the job and interest on the loan.

Paycheque advance and cheque cashing outlets usually charge a number of fees in addition to very high interest rates for short-term loans. All together, they add up to a large percentage of your cheque – even when they advertise low rates.



Handout 10-4

Incident Report

Name

Class/Block

Date

Case Name: _____

Karen blew it by:

Scene 1

Scene 2

Scene 3

Smarten Up! To avoid future incidents, Karen should: _____



Handout 10-5

Borrowing Money and Your Future Goals

Name

Class/Block

Date

Borrowing money can be a good thing or a bad thing, depending on how you handle it. If you borrow wisely, debt is a valuable tool that helps you manage expenses over a period of time. It can be part of a strategy to help you achieve your education and career goals. But if you don't use debt with care, it can threaten your financial future.

So what do you do when your education and career goals are costly, and saving enough money to pay for them seems impossible? Borrow carefully! Keep these factors in mind:

Types of credit

There are many types of credit, with different features that make them appropriate in different circumstances:

- **Credit cards** are convenient for purchases or getting cash for short-term emergencies, but they can become very costly if you don't pay them off quickly.
- **Student loans** provide money for long-term use at a lower interest rate. But they can add up to very large amounts and must be paid off when you leave post-secondary education. Carrying too much debt can seriously affect your future options.
- **Loans or lines of credit** from banks, credit unions and trust companies provide flexibility to pay for large purchases or pay down high-interest loans, provided you can comfortably fit the payments into your monthly budget.
- **Overdraft protection** is a short-term loan from your bank to cover debits or cheques when there isn't enough money in your account. It's convenient, but adds costs to your transactions.
- **High-cost loans** like paycheque advances or some of the deferred payment plans from retail stores may appear attractive, but they can also be very costly. They can charge very high interest rates and fees that can end up draining away your spare cash.

Your responsibilities when you borrow

- Borrow only what you can repay. Be sure you'll have enough income to make the payments when they're due.
- Understand your credit contract before signing it. If you aren't sure what something means, ask the loans officer to explain it. You're making a legal commitment, so you should know what you're committed to.
- Make the payments as agreed. If you run into trouble, don't avoid it – talk to the loans officer and explain the situation.
- Keep your cards, PINS and passwords secure, and check your credit slips and statements. You're responsible for reporting any errors.

Borrowing Money and Your Future Goals

Your credit rating

- Before financial institutions extend credit, they try to assess your credit rating by looking at your credit record. This is a review of your ability to repay a debt, based on your character, income, economic history (employment, previous financial records, etc.), and assets (savings or other property).
- They often check with independent agencies, known as credit bureaus, for information about your history with other companies, like telephone companies and banks. Credit bureaus are companies that track people's credit history. With your consent, they share this information with companies you want to do business with. They charge the companies for access to your information.
- You may already have a credit rating! If you buy CDs or clothes from mail-order or online services, the sellers may send a report to a credit bureau. And if your payments are behind schedule, your credit rating may be low.
- The better your credit rating, the more likely financial institutions will be willing to lend you money. If they consider you a good credit risk, they'll often offer a lower interest rate. If you have a poor credit rating, they may charge a very high interest rate, or refuse to offer a loan.
- You can request a copy of your own credit report from these companies, and you can have them correct any errors in it. The two main credit bureaus in Canada are Equifax Canada Inc. (www.equifax.ca) and TransUnion Canada (www.tuc.com).

Using debt wisely

Your decision to use debt, whether for short-term purchases or to finance your education and career goals, may have positive and negative implications for your future:

- Short-term implications: You don't have to wait to accumulate savings before moving toward your goals. But interest on debt adds to the cost, and you have to budget for regular payments.
- Long-term implications: You can achieve your goals earlier. But taking on debt limits your future choices, because you'll have to pay it back, which will reduce the money you have available for other options. Building a positive credit rating by using debt responsibly can make financing easier in the future. But a bad credit rating will limit your options in many ways.
- Because debt is expensive, often your best financial strategy is to pay off debt as quickly as possible.

You can pay in the short term, or you can pay in the long term, but you have to pay. The longer you put it off, the more you have to pay.

Borrowing Money and Your Future Goals

What can you do to avoid dangerous debt?

- Keep your credit rating positive. Pay your bills on time, and don't take on debt you can't pay off.
- Go to reputable agencies like banks and credit unions for loans.
- Keep some savings ready for emergencies.
- If you run into credit problems, you can get free or low-cost advice from community and government organizations. In BC, you can get information from the Credit Counselling Society (www.nomoredebts.org).
- Be on the watch for scams and rip-offs. You can get information about scams in your area from the Better Business Bureau (www.canadiancouncilbbb.ca).

Borrowing Money and Your Future Goals

Fill in the following:

When I leave high school, I plan to:

If I borrow money or use credit to do this, it could affect my education and career goals.

Pros: _____

Cons: _____

So I'll manage my debt by: _____

Discuss with your parents or another adult how you plan to manage debt after you leave high school. Write a summary of your discussion.
