

PERSONAL FINANCE 101
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Personal Finance 101

- What is Credit
- What is a Credit Rating, Credit History, Credit Report
- Types of Credit
- Personal Finance Basics
- The Cost of Borrowing by Type of Credit
- Financial Consumer Agency of Canada
- Tips for Wise Credit Use

What is Credit?

- What is Credit
- Managing Credit

3C's of Credit

- Character
- Capacity
- Collateral

Secured vs. Unsecured Credit

Credit Report, Rating and History

Credit Report is a useful tool for determining where you are financially, it's like a report card on how you handle credit. You can apply for credit report by phone, fax, mail or Internet.

What is a Credit Rating -- is a number given to you by the credit reporting agency and it relates to whether or not you pay your debts on time, 30 days, 60 days, 90 days late, etc.

What is a Credit History -- is a report that contains personal information about you and any credit information relating to any credit you may already have. Includes: NSF's, bankruptcy or related judgment information, any collection information relating to any debts you couldn't pay which were referred to a collection agency for payment. Etc.

Why do you need a good credit history -- lender's can refuse to give you credit, May receive a loan but have to pay a higher interest rate because you may be high risk, you may need a cosigner to borrow, you may not be able to get a mortgage, landlords may refuse to rent you an apartment, employer's may refuse to hire you.

- To apply for your credit rating: Equifax: 1-800-465-7166 or www.asterbeyond.ca to order online direct from Equifax. Trans Union: 1-877-713-3393 or www.tuc.ca

Types of Credit

- Credit Card Quiz at www.fcac.ca
- Credit Cards
- Deferred Purchases "Do Not Pay Until..."
- Secured vs. Unsecured Credit
- Overdraft
- Payday Loans
- Lines of Credit

Personal Finance Basics

- The Cost of Credit calculators at www.bankrate.com
- Pay Debts or Save
- Emergency Fund
- Invest in RRSP's or
- Pay Down Mortgage
- Spousal RRSP's
- Saving for Children's Education
- Tax Consequences of Cashing in RRSP's

Cost of Borrowing with Different Types of Credit (Cost of Credit Options for \$1,000 Purchase over 12 months)					
TYPE	INTEREST RATE	PAYMENT OPTIONS	PROS	CONS	COST OF FINANCING
Bank Loan	8% - 12%	Weekly Bi-Weekly Monthly, Open	-Lowest interest rates -Payment flexibility	-Secured assets in jeopardy if delinquent on payments -Can affect credit rating	1000 x 12% = 120/12 = 10.00 first month Second month 1000 x 10.00 x 12% = 121.20 / 12 = 10.10
Line of Credit	Prime+ (1.5%)	Weekly Bi-Weekly Monthly, Open	-Quick access to Emergency Funds -Payment flexibility	-Easier to increase debt load without careful consideration -Can affect credit rating	1,000 x 12% = \$120.00 365 days = 288 x 31 days = 10.19 first month Second month balance would be 1000 + 10.19 x 12% = 121.22 / 365 = 332 x 31 days = 10.29 Third month balance would be 1000 + 10.19 + 10.29 x 12% = 122.45 / 365 = 335 x 31 days = 10.40
Major Credit Cards	10% - 21%	Monthly minimum payments of 3% of balance required	-Convenient -Payment flexibility -Air miles and other reward programs	Can affect credit rating	1000.00 x 21% = 210.00 first month Second month 1000.00 + 210.00 x 21% = 254.10
Other Credit Cards	28%	Minimum monthly payment required of 3% of balance	-Convenient -Reward programs -Payment flexibility	Can affect credit rating -Much higher interest rates than major credit cards	1000.00 x 28% = 280.00 first month Second month 1000.00 + 280.00 x 28% = 358.40
Finance Company Or Deferred Purchases "Buy Now Pay Later"	32% - 39% Same as finance companies	May require minimum payment amounts Credit include administration fees, or prepayment penalties	-Less stringent qualifying criteria compared to banks & credit unions Balances may be paid in full before interest is charged	-High interest rates -Can affect credit rating -Secured assets in jeopardy if delinquent on payments -Security pledged without your realizing sometimes	1000.00 x 32% = 320.00 first month Second month 1000 + 320.00 x 32% = 422.40 30.00 if paid in full by due date. If not, cost is same as finance company
Draft & Overdraft Protection	21%	Open up to contractual amounts borrowed	-avoid bounced check charges from retailer -party you wrote cheque to doesn't know it bounced	-fees charged for each bounced item, fees vary, may also be interest costs, possible daily recurring fees. Can end up in recurring cycle. "Catch 22"	Annual interest rate 7.365 days x length of loan x amount of the loan
Pay Day Loans	300% to 780+% annualized	-usually 2 week term -due in full at the borrower's next pay day	-can secure small cash loans	-most expensive type of borrowing -security pledged without you realizing sometimes -can end up in "Catch 22" -creditor has access to your bank acct -may incur bounced check fees	typically \$15.50 per \$100 borrowed = borrowing fee + interest + processing fee + deferred fees possible



Financial Consumer Agency of Canada www.fcac.ca

- Rights & Responsibilities Quiz
- Credit Card Quiz
- Credit Cards and You
- Mortgage Calculators
- Mortgage Qualifier Calculator
- Credit Card Calculators-www.bankrate.com
- Microsoft Excel – Mortgage Loan Calculator
- Microsoft Excel – Loan Amortization Calculator