

# UNDERSTANDING CREDIT



## What is credit? How does it work? How can I manage debt?

Have you ever felt stressed about money? Have you ever ordered a credit report? Do you know what a credit report is? The information below will help you understand and manage your financial wellness by introducing what credit is and how it works.

### Understanding credit

Credit enables the purchase of goods or services without immediate payment based on the promise that payment will be made in the future. In most cases, there is a contractual agreement in which a borrower (you or me) receives something of value now (concert tickets) and agrees to repay the lender (Visa or Mastercard) at some point in the future.

In other words, when you use your Visa card to pay for dinner at a restaurant, Visa actually pays the bill knowing that you will pay them back when you get your credit card bill later that month.

### How credit savvy are you? Take our quiz

**True or false:** All credit cards have the same grace period.

FALSE - Interest free periods vary from card to card. They can range from 15 days to 60 days. Check your credit card agreement to find out what grace period you have.

**True or false:** If you take a cash advance on your credit card, you don't have to pay interest on it as long as you pay your credit card bill in full by the due date.

FALSE - Cash advances are treated differently than purchases made with a credit card. With a cash advance, you are charged interest from the day you get the cash advance until the day you pay it off in full.

**True or false:** If you don't like your credit card payment due date, you can call and ask that it be changed.

TRUE - Most credit card companies will happily change your regular monthly due date if you call to request it.

**True or false:** You have to pay off your credit card in full each month in order to maintain a good credit rating.

FALSE - While it's best to pay your bill off in full each month, paying the minimum by the due date will keep your credit in good standing.

**True or false:** You can phone your credit card company and request a lower interest rate.

TRUE - There's no guarantee that your interest rate will be lowered, but some companies will offer a lower rate if you request it. It's worth asking!

**True or false:** A balance of \$5000 with 18.9% interest will take 15 years to pay off if you only contribute the minimum monthly payments.

FALSE - It would take 28 years and an additional cost of \$13,068.42 worth of interest. But if you repay the same \$5000 balance at \$325 per month (instead of the minimum monthly payment) it would take just 18 months to pay off and you would only incur an extra \$771 in interest.

## What is a credit rating?

A credit rating is an assessment of the ability of a person or organization to fulfill their financial obligations based on their financial history. The assessment can be in general terms or in regards to a specific debt or financial commitment, for example, the likelihood of a borrower to be able to pay back a loan.

## What is a credit report?

A credit report is a summary or evaluation of how and when a person or organization pays their financial commitments. The types of things that show up on a credit report include:

- Cell phones on contract
- Hydro bills
- Credit cards
- Bank loans and lines of credit
- Parking tickets
- Unpaid student loans
- Car loans
- Mortgages

It is important to know that good or bad, everything stays on your credit report for up to 6 or 7 years.

## Where can I get my credit report? Why should I check it?

There are two main credit bureau companies in Canada, Equifax ([www.equifax.ca](http://www.equifax.ca)) and TransUnion. ([www.tuc.ca](http://www.tuc.ca)) Each will send you a copy of your credit report for free once a year if you make a request by mail or phone.

You should review your credit report in order to make sure it's accurate; if there are any mistakes on your credit report you are able to correct them. Additionally, those most vulnerable to identity theft are those who have good credit ratings but rarely check their financial records.

## Tips for Good Credit and Financial Health

- Make payments on time
- Keep credit limits reasonable
- Pay more than the minimum whenever you can
- Check your credit report once a year
- Start a savings, even if it's only a little bit
- Only apply for credit that you need
- Use cash instead of plastic

Visit [www.themoneybelt.gc.ca](http://www.themoneybelt.gc.ca) to compare bank accounts, credit cards, test your financial knowledge & increase your financial skills!

## What can I do if I have unmanageable debt?

If you are worried about your debt or your credit report, there are free debt solution agencies that can help.

### The Credit Counselling Society of BC

[www.nomoredebts.org](http://www.nomoredebts.org)

1-888-527-8999

## Plan for success!

1. Order your free credit report and review it
2. List all of your credit cards and your current debt
3. Set three goals for improving your current credit rating or your financial situation
4. For the next two weeks, use only cash to make purchases - it's much easier to overspend with plastic!

