

Newcomers and Money 101

A Guidebook





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Mission Statement

Through funded, co-operative financial education initiatives, Credit Canada Partnerships works with government, businesses, and communities to promote prosperity across the land.



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Introduction

Helping Newcomers Prosper



The people of Ontario are pleased to be of service to newcomers to Canada.

In partnership with the not-for-profit financial education agency Credit Canada, the Government of Ontario is providing newcomers to our province with free personal finance workshops and other learning tools such as this guidebook.

In the pages ahead, we cover:

- Canada's banking system.
- Household money management.
- Credit and debt.
- Ways to avoid financial fraud.

Our aim is to help strengthen personal financial skills amongst all Ontarians.

Canada's Financial System



A Good, Strong System

Canada has a good, strong financial system. It includes banks, trust companies, and credit unions that can help you manage your money through many different services. For easier reading of this guidebook, we will use the words “banking” or “bank” when we talk about services and accounts offered by:

- Banks.
- Trust Companies.
- Credit Unions.

All three do business in similar ways.

They also share similar strengths, including security. Up to \$100,000 of the money you put into a bank account is protected by the government in case of a bank failure.

This is done through the Canada Deposit Insurance Corporation (CDIC), or the Deposit Insurance Corporation of Ontario (DICO).

Automated Teller Machines (ATMs)

With ATM machines, you can use your ATM/debit card to:

- Deposit funds
- Withdraw funds
- Transfer funds
- View balances

The machines are available across Canada at hundreds of thousands of stores and other locations. With the use of your ATM/debit card, you can buy all kinds of products and services without having to carry cash.

Getting Started with Banking Services

It is not hard to get started with your banking in Canada. You can open a bank account even if you do not have a job or money to deposit into the account.

With proper personal identification, you can get banking services that will allow you to:

- Set up accounts for chequing, savings, and other needs.
- Make use of online banking, automated teller machines (ATMs), and ATM/debit cards.



Many Choices for Services

There are many choices for banking services.

In Canada, five large banks compete with each other to get you to use their services. Credit unions and trust companies also compete for your business. These organizations are also known as “financial institutions.”

When looking into banking services, shop around and compare what the different financial institutions have to offer you. Choose the service that is best for you and your family.

Get Help When Choosing a Bank Service

For information that will help you choose a bank account, visit the Financial Consumer Agency of Canada (FCAC) website. There you will find an “Account Comparison Tool.” Just use the search engine of any computer or smartphone and type this in:

<https://itools-ioutils.fcac-acfc.gc.ca/ACT-OCC/SearchFilter-eng.aspx>

Technology is Making Banking Easier

In Ontario and throughout Canada, using bank services is easy thanks to modern technology.

- **Online Banking** – This means that you can use a home computer and the Internet to get information about your bank account. You can transfer funds between accounts, make electronic bill payments, and more.
- **Mobile Banking** – This refers to the use of a smartphone or other cellular device for doing online banking when you are away from your home computer.
- **Telephone Banking** – This allows you to make bank transactions and manage your bank account using a regular phone (often called a home phone).
- **Electronic Bill Payment Services** – Monthly or regular bills can be paid online, over the phone, or through an automated teller machine (ATM).
- **E-Transfers** – Send and receive money directly from one person’s bank account to another person’s account. E-transfers can be made through online and mobile banking.



Financial Service Accounts

Canada's financial institutions offer a variety of accounts to help you manage, save, and invest your money.

When choosing an account, it is important to think about what bank services you need to meet day-to-day and long-term financial needs.

To open an account, you will have to present at least two pieces of "allowable" identification (I.D.) to the banking service you want to join.

Allowable I.D.

- A driver's licence issued in Canada.
- A Canadian or foreign passport.
- A Certificate of Canadian Citizenship or Certification of Naturalization.
- Permanent Resident card or Citizenship and Immigration Canada Form IMM 1000 or IMM 1442.
- A birth certificate issued in Canada.
- A Social Insurance Number card issued by the Government of Canada.
- An Old Age Security card issued by the Government of Canada.
- A Certificate of Indian Status issued by the Government of Canada.
- A provincial health insurance card with photo.
- An employee identity card, issued by an employer that is well known.

Note that each province in Canada separately regulates the use of allowable I.D. The financial institution you want to join will be able to tell you what identification applies to you.

The Simple Basics of Interest Rates

When you borrow money from a bank, you will be charged an interest rate on the amount you borrow. The interest rate is a percentage based on the interest rate set by the Bank of Canada.

The same percentage-rate rule applies for savings and investments. The bank will pay you an interest rate on the funds you have deposited with the bank.

Chequing Accounts

Chequing accounts are a secure place to keep money that you plan to use for daily and monthly financial transactions. These accounts come with printed cheques and cheque-writing privileges. Usually, you earn a low yearly interest rate – or no interest rate – on chequing account deposits.



Chequing Accounts Normally Involve:

- In-branch and ATM deposits, withdrawals, money transfers between accounts, and debit card transactions.
- Online services for transactions, and general account management and tracking.
- Pre-authorized payments (your prior approval for your bills to be paid automatically through your account, usually on a monthly basis).
- Fees for account usage (fees vary depending on specific services and transactions).

Savings Accounts

Savings accounts are not intended for regular spending transactions. However, savings accounts sometimes include cheque-writing privileges.

Savings Accounts Normally Involve:

- A way to save money for an emergency fund, special purchases, and longer-term needs.
- An interest rate which normally brings modest earnings to you based on the sum of money you have in the account.
- Service fee charges when you do not keep a certain average monthly balance of funds in the account.
- Lower transaction fees than chequing accounts.
- Online services for bank transactions and account management and tracking.





Investments

Financial institutions can also help you save and earn money through investment products such as the following:

- **Guaranteed Investment Certificates (GICs)** – This investment account comes in different forms that bring earnings on your investment through interest at either fixed or variable interest rates (see the Glossary at the end of this guidebook for definitions of fixed and variable interest rates).
- **Registered Education Savings Plans (RESPs)** – An RESP can help you save for your child's college or university education. This government-registered plan allows your savings for education to grow tax free until a child named in the RESP enrolls in a post-secondary education program.

As well, the government matches 20 cents on every dollar you contribute to the plan, up to a maximum of \$500 on an annual contribution of \$2,500. The government does not apply fees to this plan, so beware of any extra fees that might be applied by a bank.

- **Registered Retirement Savings Plans (RRSPs)** – This is a personal savings plan designed to help you save for retirement.

On an annual basis, as you put money into the plan you can deduct your contributions from your taxable income, so your taxes for the year are reduced. You do not pay tax on the earnings until you withdraw money from the RRSP.

- **Registered Disability Savings Plans (RDSPs)** – An RDSP can help Canadians and their families save for the long-term financial security of those with disabilities.

It allows savings to grow on a tax-deferred basis. As well, the RDSP provides for government assistance, including grants of up to \$1,000 a year, and bonds of up to \$3,500 a year.

- **Tax-Free Savings Accounts (TFSAs)** – A TFSA will help you reach both short-term and long-term goals. Investment earnings in a TFSA are not taxed, even when withdrawn.

You are allowed to contribute up to \$5,500 per year to a TFSA. You can also carry forward any unused contributions from previous years.

Other Financial Services



Overdraft Protection


Overdraft protection allows you to withdraw money from an account even when there is not enough money in the account to cover the amount of the withdrawal. You will pay a usage charge for the service, and you will pay interest on the money borrowed for the overdraft.

Account Statements

No matter what type of account you choose, you will have access to a bank services statement. It covers deposits, withdrawals, automatic bill payments (also known as pre-authorized payments), and service fees.

You can read your statements online at any time. You can also ask your financial institution to mail you a statement monthly, but a fee for the mailing may apply. Review your statements regularly. If you have questions or concerns, call your financial institution for help.

A typical bank account statement looks like this:

|  | | FIRST BANK OF WIKI 1425 JAMES ST, PO BOX 4000 VICTORIA BC V8X 3X4 1-800-555-5555 | | CHEQUING ACCOUNT STATEMENT Page : 1 of 1 | |
|---|-----------------------------------|---|-------------|---|---------|
| JOHN JONES 1643 DUNDAS ST W APT 27 TORONTO ON M6K 1V2 | | Statement period 2003-10-09 to 2003-11-08 | | Account No. 00005- 123-456-7 | |
| Date | Description | Ref. | Withdrawals | Deposits | Balance |
| 2003-10-08 | Previous balance | | | | 0.55 |
| 2003-10-14 | Payroll Deposit - HOTEL | | | 694.81 | 695.36 |
| 2003-10-14 | Web Bill Payment - MASTERCARD | 9685 | 200.00 | | 495.36 |
| 2003-10-16 | ATM Withdrawal - INTERAC | 3990 | 21.25 | | 474.11 |
| 2003-10-16 | Fees - Interac | | 1.50 | | 472.61 |
| 2003-10-20 | Interac Purchase - ELECTRONICS | 1975 | 2.99 | | 469.62 |
| 2003-10-21 | Web Bill Payment - AMEX | 3314 | 300.00 | | 169.62 |
| 2003-10-22 | ATM Withdrawal - FIRST BANK | 0064 | 100.00 | | 69.62 |
| 2003-10-23 | Interac Purchase - SUPERMARKET | 1559 | 29.08 | | 40.54 |
| 2003-10-24 | Interac Refund - ELECTRONICS | 1975 | | 2.99 | 43.53 |
| 2003-10-27 | Telephone Bill Payment - VISA | 2475 | 6.77 | | 36.76 |
| 2003-10-28 | Payroll Deposit - HOTEL | | | 694.81 | 731.57 |
| 2003-10-30 | Web Funds Transfer - From SAVINGS | 2620 | | 50.00 | 781.57 |
| 2003-11-03 | Pre-Auth. Payment - INSURANCE | | 33.55 | | 748.02 |
| 2003-11-03 | Cheque No. - 409 | | 100.00 | | 648.02 |
| 2003-11-06 | Mortgage Payment | | 710.49 | | -62.47 |
| 2003-11-07 | Fees - Overdraft | | 5.00 | | -67.47 |
| 2003-11-08 | Fees - Monthly | | 5.00 | | -72.47 |
| *** Totals *** | | | 1,515.63 | 1,442.61 | |

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Safety Deposit Boxes

Many financial institutions offer safety deposit boxes, which are a very secure way to store valuable items such as important documents.

A safety deposit box can be rented, and it can be opened with keys, personal identification, or some other security pass.

Wire Transfer Services

A wire transfer (also called a bank transfer or credit transfer) is an electronic funds transfer from one person to another anywhere in Canada or around the world. A fee for the service will apply.

Certified Cheques, Money Orders, and Drafts

Usually for a fee, banking services (as well as post office outlets) can provide you with a certified cheque, money order, or draft. These tools provide solid assurance that there is enough money in an account to cover the cheque, money order, or draft that is issued.

Service Problems and Complaints

If you have a problem with your bank, you should speak to a customer service representative at the institution.

If the problem is not solved, then speak to the representative's immediate supervisor. If the problem still is not fixed, speak to the regional or area manager of your financial institution.

If problems keep happening and you are unhappy with your financial institution, you can contact what is called the bank's "Ombudsman" – the term for someone who is responsible for hearing and settling complaints.

If the bank's ombudsman cannot fix things, you can contact Canada's Ombudsman for Banking Services and Investments (OBSI) online at obsi.ca or by calling 1-888-451-4519.





Alternative Financial Services

Alternative financial services include payday lenders, pawnshops, cheque-cashing stores, and other businesses. Alternative financial services apply higher fees and higher rates of interest than traditional financial institutions.

Very High Interest Rates

Payday lenders, as an example, may offer a short-term loan where a customer borrows money at a very high rate of interest.

The customer typically writes a post-dated personal cheque in the amount they wish to borrow and pays a fee in exchange for the cash. Or the customer may give the payday lender access to the customer's bank account.

Another example is a cheque-cashing service that charges a fee for cashing government-issued cheques, something traditional financial institutions generally do not do.

People in Financial Distress

It has been reported that people in financial trouble often use alternative financial services. They often do not know about affordable services available to them through traditional banking institutions.

Traditional financial services offer tools – such as overdraft protection and lines of credit – that can help people get beyond short-term setbacks.

Complaints about Alternative Financial Services

Customer complaints about alternative financial services should be directed to Ontario's Ministry of Government and Consumer Services.

Complaints can be made online by typing in the URL:

www.ontario.ca/page/filing-consumer-complaint



Basic Rules of Money Management

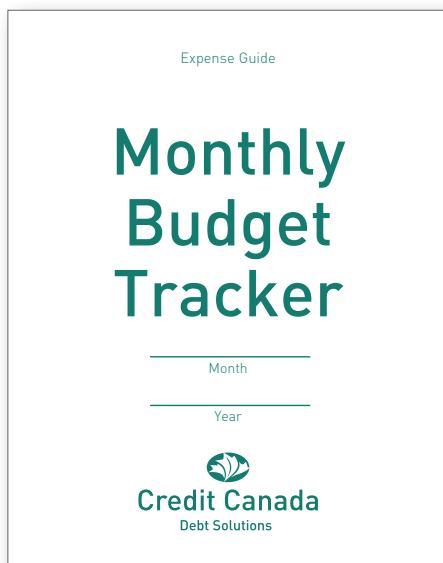
1. **Plan.** Plan for the future, for major purchases, and for periodic expenses.
2. **Set financial goals.** Determine short, mid, and long range financial goals.
3. **Know your financial situation.** Determine monthly living expenses, periodic expenses and monthly debt payments.
4. **Develop a spending plan and realistic budget.** Follow your budget as closely as possible. Evaluate your budget. Compare actual expenses with planned expenses.
5. **Don't allow expenses to exceed income.** Avoid paying only the minimum on your charge cards, try to pay more. Don't charge more every month than you are repaying to your creditors.
6. **Saving is good.** Save for periodic expenses, such as car and home maintenance. Save 10 to 15 percent of your net income. Save three to six months salary in an emergency fund.

Put money away for retirement by opening a Registered Retirement Savings Plan (RRSP) and take advantage of current income tax rules that allow for other tax-deductible savings.

7. **Pay your bills on time.** Maintain a good credit rating. If you are unable to pay your bills as agreed, contact your creditors and explain your situation.
8. **Know the difference between needs and wants.** Take care of your needs first. Money should be spent for wants only after needs have been met.
9. **Use credit wisely.** Use credit for safety, convenience, and planned purchases. Determine the total you can comfortably afford to purchase on credit. Credit payments should not exceed 15 to 20 percent of net income. Do not borrow from one creditor to pay another.

10. **Keep a record of daily expenditures.** Use a "Monthly Budget Tracker" budgeting booklet to track your daily expenses. You can identify how you spend your money and where any adjustments in your spending need to be made. To get the Monthly Budget Tracker visit:

www.creditcanada.com/documents/BudgetTracker.pdf



Creating a Spending Plan

The Benefits of a Spending Plan

A spending plan is a list of your planned household expenses (money paid for items or services) and your income. With a spending plan in place, you can follow a monthly household budget and manage your money wisely.

Good reasons to create the plan:

- It is important to know exactly where, when, and how you are spending your money.
- When you are organized, you gain control over your spending.
- A spending plan can be very detailed or simple, it is your choice.
- Making a spending plan is for your own personal benefit.

Four steps to developing a spending plan:

1. List all sources of income (after taxes).
2. Be sure to list all your expenses in your spending plan. The chart on the next page (Page 12) will help you list and add up the expenses you make during a one-month period. Put each of your spending figures under the column marked "Initial" and leave the column marked "Revised" until later.
3. Total up your expenses, then subtract the total from your income to figure out how much (if any) money you have left over. You can spend the extra money on things you want rather than things you need. Things you want might include saving for a vacation or building a fund for a child's education. Things you need include housing, food, clothes, and other essentials.

4. Track, trim, and target your spending. Knowing what your living expenses are for each month will help guide you in your spending and budgeting. For example, once you have added up all your monthly expenses, you may find out that you do not have enough income to pay for all your expenses. That means you will have to go back and look over all your expenses to see where you might be able to spend less money.

Also, once you set life goals (see Page 14) for you or your family, you may need to find ways to save money to reach your goals. So again, you will need to go back and look at your expenses to make changes to your spending that will help you save money.

The monthly expense chart on the next page allows you to make changes to your spending figures under the column marked "Revised."

Add Up Your Income and Expenses

Step 1: List all sources of income

INCOME

| | |
|---|-----------------|
| Net Income from Wages | \$ _____ |
| Rental Income | \$ _____ |
| Pensions | \$ _____ |
| Government Assistance | \$ _____ |
| Self Employment | \$ _____ |
| Other | \$ _____ |
| Total Monthly Net Income | \$ _____ |

Step 2: List all monthly expenses

Important Note: This chart will help you list monthly expenses for things such as rent and groceries. You may also have expenses that do not fall within a one-month time period. They may be expenses that happen only once or twice a year. For any expense that doesn't fall within the time period of a month, divide the expense to fit into a monthly amount. For example, you may get car insurance only once a year. Divide the amount of the car insurance expense by 12 to get the monthly amount.

| Housing Expenses: | Initial | Revised |
|---------------------------------------|---------|---------|
| First Mortgage | _____ | . _____ |
| Second Mortgage | _____ | . _____ |
| Property Taxes | _____ | . _____ |
| House / Rental Insurance | _____ | . _____ |
| Rent / Condo Fees | _____ | . _____ |
| Telephone | _____ | . _____ |
| Cell phone | _____ | . _____ |
| TV cable | _____ | . _____ |
| Internet | _____ | . _____ |
| Hydro | _____ | . _____ |
| Water / Sewer | _____ | . _____ |
| Gas / Oil / Wood / Electric | _____ | . _____ |
| Maintenance Contracts | _____ | . _____ |
| Other | _____ | . _____ |
| Other | _____ | . _____ |
| Sub Total | _____ | . _____ |

| Work Expenses: | Initial | Revised |
|-------------------------------|---------|---------|
| Transit - Applicant | _____ | . _____ |
| Transit - Spouse | _____ | . _____ |
| Lunches / Breaks | _____ | . _____ |
| Lunches / Breaks | _____ | . _____ |
| Daycare | _____ | . _____ |
| Parking | _____ | . _____ |
| Other | _____ | . _____ |
| Other | _____ | . _____ |
| Sub Total | _____ | . _____ |

| Living Expenses: | Initial | Revised |
|--------------------------------------|---------|---------|
| Food | _____ | . _____ |
| Personal Travel | _____ | . _____ |
| Clothing | _____ | . _____ |
| Alimony & Support | _____ | . _____ |
| Vehicle Loan(s) | _____ | . _____ |
| Auto License / Maintenance | _____ | . _____ |
| Insurance – Auto | _____ | . _____ |
| Insurance – Life | _____ | . _____ |
| Medical / Doctor | _____ | . _____ |
| Prescription Drugs | _____ | . _____ |
| Dental | _____ | . _____ |
| Laundry / Dry Cleaning | _____ | . _____ |
| Pets | _____ | . _____ |
| Other | _____ | . _____ |
| Other | _____ | . _____ |
| Sub Total | _____ | . _____ |

| Personal Expenses: | Initial | Revised |
|--------------------------------------|---------|---------|
| Tobacco | _____ | . _____ |
| Alcohol / Beverages | _____ | . _____ |
| Entertainment / Recreation | _____ | . _____ |
| Babysitter | _____ | . _____ |
| Personal Grooming | _____ | . _____ |
| Barber / Hairdresser | _____ | . _____ |
| Magazines / Newspapers | _____ | . _____ |
| Gifts | _____ | . _____ |
| Religious / Donations | _____ | . _____ |
| School Expenses | _____ | . _____ |
| Savings | _____ | . _____ |
| Allowances | _____ | . _____ |
| Debt Payments | _____ | . _____ |
| Other | _____ | . _____ |
| Other | _____ | . _____ |
| Sub Total | _____ | . _____ |

| | | |
|---------------------------------|-------|---------|
| TOTAL EXPENSES | _____ | . _____ |
|---------------------------------|-------|---------|

Step 3: Figure out the difference between your income and expenses

Write down your net monthly income . . . \$ _____

Subtract your total monthly expenses . . . \$ _____

TOTAL MONEY AVAILABLE \$ _____

If you have money left over after you have subtracted all your expenses, then you are in a good position.

If you have no money left over or you are in a deficit (meaning your overall expenses are greater than your income), then you are not in a good position. You are spending more money than what you are earning.

The goal here is to help you see where you are spending your money and where you can make changes.

To keep careful track of your money, use the “Monthly Budget Tracker” mentioned at the bottom of Page 10 of this guidebook.

Step 4: Track, trim, and target

It’s important to remember that if you do not have enough income to pay your expenses, you need to look over your spending plan to see where you can spend less money.



Tips for a Healthy Spending Plan

- Be honest. Make sure you list everything no matter how small the expense.
- Before you buy something, always ask yourself whether or not it is something you need or something you want. Needs in life are always more important than wants.
- Just a reminder that if you have a bill you pay just once a year, divide it by 12 to get your monthly average and put it in your monthly spending plan and save the funds each month.
- Keep track of your income and expenses every month.
- Always consider other possibilities before spending, such as:
 - Prior to going grocery shopping make a list, cut out coupons, and consider buying lower-priced products and services.
 - Consider “bundling” telephone, cable, and Internet services with one service provider. Bundling means bringing different services together through one company. This will save you money.
 - Save on clothing costs by checking out “big box” stores and thrift stores, which sell goods at lower prices.
- Use credit cards only for emergencies.
- Pay off your total credit card balances before the due date each month to avoid paying interest and other fees.
- Comparison shop for all large purchases and look for senior citizen and/or student discounts if they apply to you and your family.
- Learn to say “no” when kids, relatives, and friends ask for money.
- Save regularly into a Tax Free Savings Account (TFSA). See the bottom of Page 6 in this guidebook for information about TFSAs.
- Update your spending plan every month.

If circumstances change (for example, your income changes) remember to add the changes to your spending plan.

Financial Goals

Imagine what you would like to do with your money. What do you see? Are there specific items you want to buy or things you want to do as time goes on? To get the things you want in life, you need to set specific financial goals.

You need to write down your goals and review them regularly. This will help you achieve success.

Here is a chart you can use to help you list, review, and reach your goals.

Your Financial Goals

| Short-Term Goals (that can be reached within a year or so) | | | |
|--|----------------|-------------|---------|
| OBJECTIVE | ESTIMATED COST | TARGET DATE | MONTHLY |
| Example: Washing machine | \$450 | 1 Year | \$37.50 |
| 1 | | | |
| 2 | | | |
| 3 | | | |

| Medium-Term Goals (that can be reached within five years) | | | |
|---|----------------|-------------|---------|
| OBJECTIVE | ESTIMATED COST | TARGET DATE | MONTHLY |
| Example: 4-year-old car | \$6,000 | 3 Years | \$167 |
| 1 | | | |
| 2 | | | |
| 3 | | | |

| Long-Term Goals (that can be reached within 10 to 15 years or longer) | | | |
|---|----------------|-------------|----------|
| OBJECTIVE | ESTIMATED COST | TARGET DATE | MONTHLY |
| Example: Down-payment of a house | \$25,000 | 5 Years | \$416.66 |
| 1 | | | |
| 2 | | | |
| 3 | | | |

Evaluation

As time goes on, be sure to adjust your goals so they match any changes that may happen in your life. Changes to your income and/or expenses – or changes in your hopes and dreams – will influence your list of written goals.

Here are some helpful tips on creating a successful budget:

1. Make use of at least two bank accounts.

- Personal chequing – used for all household regular monthly expenses.
- Savings – to meet goals, and acts as a safety cushion for emergencies.

2. Make sure everything you spend is listed in your budget booklet (Monthly Budget Tracker) including any small items such as coffee, gum, candy bars, etc.

3. Use a “piggy bank” to help you save money. Although this is not a planning tool, a piggy bank helps you put away money that you can use for small expenses that come up on a daily or weekly basis.

4. Always look for ways to reduce your spending and expenses.

5. Minimize the number and usage of credit cards. Ask yourself: Do you really need more than one credit card?

Savings

First, Build an Emergency Fund

If you are short on savings, the first thing you should do is start an emergency fund to cover three to six months worth of your total personal and household expenses. Create this fund before you save for anything else. You need the cushion and assurance that if you should lose your income, you can still meet your obligations until the emergency is over.

Start a Savings Program

A successful savings program requires that you have a savings account. The savings account is not a luxury but an absolute necessity for financial comfort.

If you get into the habit of “paying yourself first” you will always practise saving. The savings account is there to meet goals. The savings account does not exist to pay bills.

The easiest approach to saving money is to take a percentage of your income and put it away each payday. Each time you receive your pay cheque, take a percentage of it and put that money in your savings account or some other type of investment product.

Your personal banker can help you set up automatic withdrawals that take money out of one account and put it into your savings account every time you get paid.

By moving money into savings before you have a chance to spend it, you will find it easier to save.

It takes discipline and dedication to start a savings program, but just watch how your savings grow when you do.

- If employed, try to save from 10 to 15 percent of your net income.
- If unemployed, try to save two to three percent of your net income.

Based on the total monthly net income for your household, write down the percentage of income you would like to put away for savings.

Percentage of income for savings: _____

Will it be possible to meet this amount or will there be expenses that will have to be reduced or eliminated? List the expenses that will be affected.

A. _____

B. _____

C. _____



Credit and You

Credit can be good or bad. It's all in how you handle it.

What is Credit?

- Credit is a privilege you receive when you borrow money based on a promise (agreement) to repay the money at a later date, or when you purchase something you promise to pay for at a later date.

A credit agreement involves:

- **The Lender (Creditor)** – a person, bank or company that provides you with credit (loans you the money).
- **The Borrower (Debtor)** – a person who borrows the money and who owes the creditor (lender).

Before you decide on a type of credit, carefully consider all possible options.

Types of Credit

- **Revolving Credit (Credit Cards).** With revolving credit, a bank allows you to keep borrowing money up to a certain credit limit. Every time you buy something on credit, that amount is subtracted from your total credit limit. And every time you pay off your balance owing, your available credit goes back up.
- **Charge Cards.** A card that charges no interest but requires that you pay your balance owing in full upon receipt of your billing statement, usually on a monthly basis.
- **Line of Credit (secured or unsecured).** This is the amount of credit given to a borrower. For more information about this type of credit, see the Glossary at the end of this Guidebook, which defines “line of credit” and “secured and unsecured loans.”
- **Installment Loan (a loan with set payments).** This loan is repaid over time with a set number of scheduled payments.
- **Residential Mortgage.** A mortgage (home loan) can include payment terms of up to 25 years. But terms of a mortgage usually change with renewals, which normally happen every few years.



Qualifying for Credit – The “Three Cs”

Lenders will choose to lend money on the basis of the “Three Cs”:

• Character

From your credit history (how you have borrowed and paid money back in the past), the lender seeks to know whether you are honest and reliable enough to repay your debt. A lender might ask the following questions about your Character:

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

• Capital

The lender will want to know about your “capital.” Do you own things (assets) such as a home, an automobile, or savings and investments that could be used to repay the debt you owe the lender if you stop making your normal payments? The lender might ask these questions about your Capital:

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments?

• Capacity

Capacity refers to your ability to repay your debt based on your job and annual income. The lender might ask these questions about your Capacity:

- Do you have a steady job? If so, what is your salary?
- How many other loan payments do you have?
- What are your current expenses?
- What are your current debts?
- How many dependents do you have?

Your Credit Report, Credit Rating, and Credit Score



Your Credit Report

A credit report is a summary (or snapshot) of your credit history. It is one of the main tools lenders use to determine whether or not to give you credit.

Your report is created when you first borrow money or apply for credit through a financial institution or a retail store (when you apply for what is called a “store credit card”). These banks and retailers gather information about the financial transactions they have with you. They report this information to one or both of Canada’s two major credit-reporting agencies:

- Equifax Canada - www.consumer.equifax.ca
- TransUnion Canada - www.transunion.ca

Through either of the above agencies, you will get a good or bad credit report depending on whether you have been using credit wisely and have been paying bills on time. Your file can be viewed not only by lenders, but by many different organizations who may want to know more about your financial history before they do business with you. You can view your credit file anytime. You can do so for free by mail, or for a fee through the Internet.

Your credit report can contain facts about:

- Personal information
- Enquiries into your credit history.
- When you opened your accounts.
- How much you owe.
- Whether you make your payments on time.
- Whether you miss payments or have missed payments in the past.
- Whether you go over your credit limit.
- How you handle mobile phone and Internet accounts.
- Chequing or savings account closures due to money owing or fraud.

Ways to Build a Good Credit History

- Establish a steady work record.
- Pay bills on time.
- Apply for a secured credit card from a reputable financial institution.
- Apply for a small loan and pay it back using your savings account as collateral.
- Make sure you pay back the loan according to your credit agreement.

Your Credit Rating*

Some credit-reporting agencies report the lenders' rating of each of your credit history items on a scale of 1 to 9. A rating of "1" means you pay your bills within 30 days of the due date. A rating of "9" means that you never pay your bills at all or that you have filed a bankruptcy.

A letter will also appear in front of the number: for example, I2, O2, R2. Each letter stands for the type of the credit you are using. The most common ratings are "R" ratings. "R" means you have "revolving" credit, where you make regular payments in varying amounts depending on the balance of your account, and can then borrow more money up to your credit limit.

Credit cards are a good example of "revolving" credit. If you always pay on time, it will be coded an R1. If an amount was written off because you never paid it back, it is coded R9.

"I" means you were given credit on an installment basis, such as for a car loan, where you borrow money once and repay it in fixed amounts, on a regular basis, for a specific period of time until the loan is paid off.

"O" means you have open credit such as a line of credit, where you borrow money, as needed, up to a certain limit and the total balance is due at the end of each period.

The "O" category may also include student loans, for which the money may not be owing until the student finishes school.

* Information courtesy of Canada's Office of Consumer Affairs (OCA)

North American Standard Account Ratings : "R" Ratings

R0: Too new to rate; approved but not used.

R1: Pays (or paid) within 30 days of payment due date or not over one payment past due.

R2: Pays (or paid) in more than 30 days from payment due date, but not more than 60 days, or not more than two payments past due.

R3: Pays (or paid) in more than 60 days from payment due date, but not more than 90 days, or not more than three payments past due.

R4: Pays (or paid) in more than 90 days from payment due date, but not more than 120 days, or four payments past due.

R5: Account is at least 120 days overdue, but is not yet rated "9."

R6: This rating does not exist.

R7: Making regular payments through a special arrangement to settle your debts.

R8: Repossession (voluntary or involuntary return of merchandise).

R9: Bad debt; placed for collection; moved without giving a new address or bankruptcy.

Note: Other rating indicators that might be found on a report are "I" for installment credit or "O" for open credit line. Source: Equifax Canada

Your Credit Score



Credit scores are included in your credit file.

Your score is a three-digit number that shows whether you are a good or a bad credit risk.

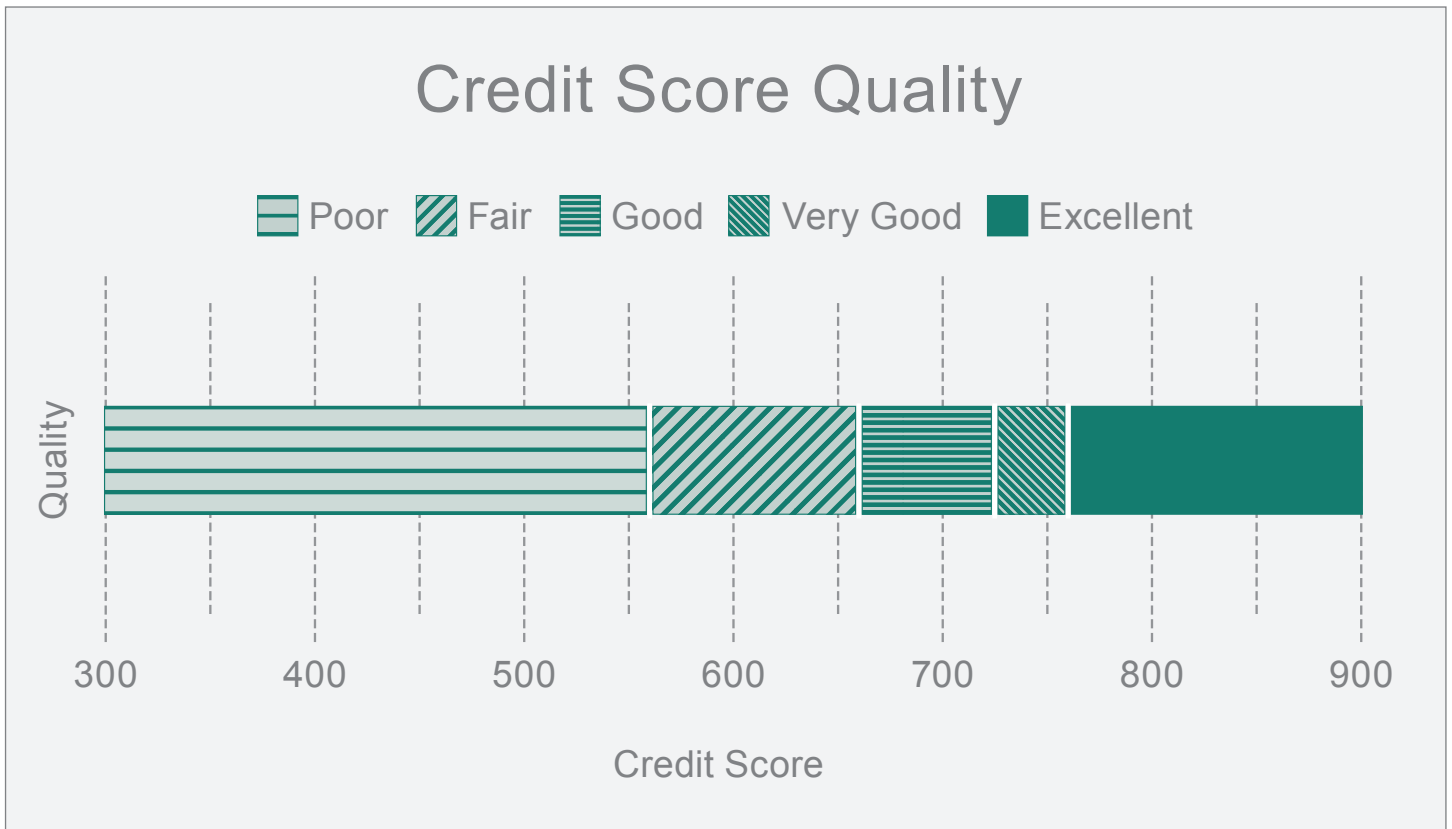
The credit-reporting agencies Equifax and TransUnion use a scale from 300 to 900.

High scores on this scale are good. The higher your score, the lower the risk for the lender or organization looking into your financial background.

Lenders may also have their own ways of arriving at credit scores.

Lenders decide on the lowest score you can have to borrow money from them.

They can use your score to determine the interest rate you will pay.





Maintaining a Good Credit Rating

1. Pay your bills on time. If you are unable to pay your bills as agreed, contact your creditors and explain your situation.
2. Don't sign a credit contract until you have read it and understood it.

If you don't understand it, ask questions until you are satisfied.

3. Never sign a blank sheet. Your signature is your promise to pay and a contract is a legal document.

It's a simple matter of knowing what you are getting yourself into before you get into it.

4. Try to pay off any debt quickly. Avoid prolonged low monthly payments and avoid having to refinance at higher interest rates.

Try to pay more than the minimum monthly payment.

5. Be sure you understand the total cost of the things you purchase on credit.

Calculate all the interest you will have to pay over time on your debt. Use the following debt calculator:

www.creditcanada.com/debt-calculator

6. Deal with known, respected, and established companies.

Dealing with Credit Problems

If for any reason you cannot meet your payment obligations to any of your creditors, contact the creditor immediately and discuss your problems openly.

Ask for their help rather than telling them what to do.

Creditors are flexible when changes in your life make repayment of your obligations difficult. But you must make them aware of your situation.

Do not try to avoid your creditors when you face financial trouble; it will just make the situation worse.

Keep a record of the person you speak with, along with records of the date, time, and phone contact number.

Also, make notes about anything that is said about new financial arrangements or payment schedules. Avoid making promises you can't keep.

Put any new payment arrangements in writing. Never mail cash, and keep all payment receipts.

On the following page, you will see a sample letter you can follow to make new arrangements with your creditors.

If you find that your ability to deal with your creditors directly has become impossible, or you cannot see a way out of your financial situation on your own, contact a non-profit credit counselling service, such as Credit Canada.

Credit Canada offers no-cost/low-cost confidential credit counselling.

The agency serves anyone who needs advice about how to handle money and reduce or eliminate debt.

Credit Canada also arranges debt consolidation programs to help individuals deal with their creditors and get out of debt.

Credit Canada has offices and affiliated agencies throughout Canada.

To contact the agency, visit the website: www.creditcanada.com.

A Sample Letter to Creditors in Times of Trouble

In times of financial trouble, it's a good idea to get in touch with your creditors to let them know what you are doing to manage your money. Here is a sample letter that you can send to creditors informing them about your financial situation and outlining terms

for how you propose to repay what you owe. Send the letter by registered mail and be sure to keep a copy of the signed letter for your records.

Today's Date _____

Credit Department
1 Downtown Street
Toronto, Ontario M5B 1L2

Dear (Creditor's Name) _____

I am writing this letter to request a temporary change in the repayment terms of my account. Since I have become unemployed, (or list other reasons) I've had to make some financial adjustments. Please find enclosed a copy of my pay stub (or other) and my monthly expenses and any other debts/obligations.

My temporary income is from (social assistance, spouse's employment, or part time earning – list what you are collecting). However, when I carefully examined my financial situation and made a strict budget for my living expenses, it has become necessary to ask (creditor's name) to accept a reduced payment of \$ _____ for the next _____ months.

My current monthly take home is \$ _____ (list total income) and my minimum monthly living expenses are \$ _____ (list total expenses). As you can see, I have only \$ _____ left each month for my proposed payment.

| My Account # | Amount Owning | Monthly Pmt | Proposed Pmt |
|--------------|---------------|-------------|--------------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

You can expect a certified cheque (or money order) for my first payment on (date). For the next _____ months I will make the same payment. As soon as my situation improves, or at the end of _____ I will try to catch up on the arrears and resume my normal payment.

I request that my account is not placed in the hands of a collection agency, (if it already has, ask them to pull the account back) as I wish to deal with you directly and do not want to go further in debt. Could you please consider withholding interest on my account over the next 60 (90) days as I am awaiting employment (or other) and will notify you in 60 (90) days as to any changes? I do not want to jeopardize my future relationship with (creditor's name) as this has never happened before.

Thank you for considering this proposal. Please let me know if this is acceptable for the short term. If it is, please sign this letter and send me a copy. I am eager to resolve this problem.

Sincerely,

____ Yes, I/We accept the payments offered.

Authorized signature _____ for _____ (company name).

Attach a copy of any income proof – i.e., disability, pension, welfare, employment income (EI), etc.

Avoiding Fraud



Consumers Beware

Every year, Canadians lose millions of dollars to dishonest people who trick others over the Internet, by phone, by mail, and even by making door-to-door visits and going through mail or trash cans to find your personal information for illegal use.

Newcomers to Canada are special targets by criminals (also known as scammers or scam artists) who try to get personal information and money from you in fraudulent ways. In many cases, these criminals pretend to be government officials from Canada's tax organization, Canada Revenue Agency, and from Canada's immigration ministry.

The Government of Canada offers good advice about ways to know and avoid this kind of fraud.

People Pretending to be Government of Canada Staff

Criminals are known to contact newcomers by phone saying they are with the government. They try to scare you by saying you have done something wrong (like not filing proper paperwork), and that you owe money or fees. They may say you will lose your immigration status or be deported if you do not pay the money or fees right away. These criminals may even threaten your family or home.

Always remember that government agencies in Canada will never:

- Contact you by phone to collect fees or fines.
- Be aggressive or threaten to arrest or deport you.
- Threaten to harm you or a member of your family, or damage your home or property.
- Ask for personal information over the phone (except to verify information you have provided to the government).
- Ask for financial information over the phone.
- Try to rush you into paying right away.
- Ask you to pay money or fees using prepaid credit cards, Western Union, Money Gram, gift cards, or any other similar services.
- Send police to arrest you for unpaid money or fees.



What to do about Suspicious Phone Calls

- If the call is about immigration, contact the Immigration, Refugees and Citizenship Canada (IRCC) call centre at 1-888-242-2100 to confirm contact.
- If the call is about taxes, disconnect the phone, then confirm if the call was real by calling the Canada Revenue Agency (CRA) at 1-800-959-8281.
- If you believe any call is not real, report it to the Canadian Anti-Fraud Centre (CAFC) by calling 1-888-495-8501.
- If you have lost money to a scam artist, report it to your local police.
- Ask for the name of the person calling and then hang up.

Major Areas of Fraud

The Government of Canada has also identified the major areas where fraud occurs, affecting all Canadians.

Identity Theft

What happens: Criminals get their hands on your personal information – anything from your name, driver's licence, or Social Insurance Number – then they use the information to commit financial fraud using your identity.

What to do: Start by preventing identity theft in the first place. Make sure your personal information is protected at all times and that it remains private. If you suspect that someone has stolen your identity, report the matter to the police immediately and get a complaint number. Take immediate action to notify your bank and to change and replace all sensitive items, cards, security codes, passwords etc.

Fake Emails

What happens: You may get an email trying to convince you to invest money or to give personal information or passwords related to your banking accounts.

What to do: Delete the email. Legitimate investors don't send bulk emails to people they do not know.

Watch out for emails from a stranger that direct you to a website that asks for personal information. Never give out personal information unless you know who you are giving it to, and that the website is secure.

If you get this kind of email, don't click on any links or give any information about yourself. If you have any doubts about where the email came from, make sure to check the identity of the sender.



Fake Prizes

What happens: If you get a phone call, an email, or a text message claiming you won something but you did not enter a contest, it is probably a scam.

What to do: If you get a text message from a stranger, and it directs you to a form that asks you to enter any personal information, delete the text. Do not enter any information.

If the text tells you to text “STOP” or “NO” so you don’t get more texts, delete it. Do not reply. Scam artists do this to confirm they have a real phone number. Forward the texts to 7726 (SPAM on most keypads).

This will let your phone provider block future texts from those numbers. If you think your text message is real, check that the link is sending you to is the correct website.

Other Widespread Scams

Watch out for:

- **THE OFFICIAL BANK SCAM** – A person contacts you through an email that looks exactly like something from your bank – logo, colours and everything. The scam artists say they need to confirm official business and ask you to provide sensitive bank or credit card information that allows them to hack (or break into) your account.
- **THE EMERGENCY SCAM** – You get a call from someone who claims to be a long-lost family member or friend who needs money for an emergency; they hope to scam you out of money through your emotions.
- **THE REWARD POINTS SCAM** – You are told by email that you have been chosen to get thousands in reward points (e.g. Air Miles); but to collect the points you need to provide personal financial information.
- **THE MYSTERY SHOPPER SCAM** – You are contacted by someone who says you have been selected as a well-paid “mystery shopper” where all you have to do is shop to make lots of money; but first you need to provide sensitive data.
- **THE WORK FROM HOME AND GET RICH SCAM** – You are contacted by a person who claims that for a fee you can join a program that will bring you thousands of dollars working from home; but the program is fake and only much later do you realize you have been tricked.

[illegible]

The best advice about fraud is:

If you think you have good reasons to be suspicious of others, don't be afraid to report them to the police and other authorities. Also, keep all documentation that you think might be helpful in a fraud investigation.

Contact the Canadian Anti-Fraud Centre (CAFC) of the Government of Canada.

<http://www.antifraudcentre.ca> - Click on Report an Incident

Toll Free at 1-888-495-8501

Monday-Friday from 9:00 am to 4:45 pm (Eastern Time)



Glossary

To help you read this guidebook, certain selected terms (words and phrases) are explained below in alphabetical order.

Balance: A balance is the amount of money that exists in a bank account (such as a chequing account or a savings account). A balance can also be the total amount of money that a borrower owes to a lender. Or it can be the amount of money a person owes to a service (such as an electric utility, a mobile phone company, or a cable TV company).

Collateral: Collateral is a property or other asset (such as a car) that a borrower offers as a way for a lender to secure a loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to make up for losses due to non-payment.

Collection Agency: A collection agency (debt collector) is a business that is hired by a lender or other financial institution in order to collect unpaid debts from borrowers.

Creditor: A creditor (or lender) is a person, bank, or company that provides credit (loans money) to others.

Debtor: A debtor (or borrower) is a person who borrows money from a creditor with the promise to pay back the borrowed amount.

Deficit: A deficit is a shortage of something. In financial terms, a deficit happens when there is not enough money to pay expenses and debts.

Fixed Interest Rate: This is an interest rate that does not change over the life (or term) of a bank loan or other form of credit.

Gross Income: Gross income is all the money a person makes before taxes and other mandatory deductions (such as Employment Insurance) apply.

Line of Credit: This is a credit arrangement where a financial institution agrees to lend money to a customer up to a certain limit. The arrangement allows the customer to borrow money as needed over time up to the set limit.

Mortgage: A mortgage is a long-term loan used to buy a home (also known as real estate).

Net Income: Net income is the amount of money a person keeps after all taxes and other mandatory deductions (such as Employment Insurance) apply.

Periodic Expenses: These are expenses in a personal or household spending plan (budget) that are not paid on a regular monthly basis. For example, both holiday and tax debts are periodic, meaning they are not part of regular monthly expenses such as rent or mortgage payments.

Post-Secondary Education: This means any education beyond high school, which for most people in Canada ends around the age of 18, or adulthood. An example of a post-secondary education is a college education.

Secured Loan: A secured loan is a loan in which the borrower pledges some asset (for example, a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan.

Tax-Deductible: Being tax deductible means that you can deduct an expense (a charitable gift, business expenses, etc.) from your income on your tax return.

Transaction: A transaction is something that happens when you buy or sell something, or when you otherwise formally exchange something of financial value.

Unsecured Loan: This is a loan that is provided without the need for an asset (for example, a car or property) as collateral to support (or secure) the loan. The borrower gets the loan on the basis of his or her trustworthiness to pay back the lender in full.

Variable Interest Rate: This is a bank loan interest rate that changes from time to time.

Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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