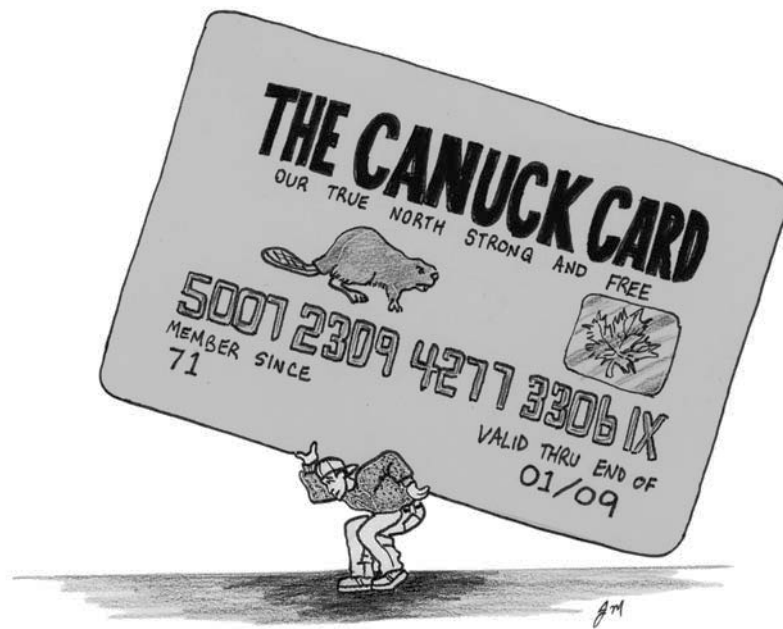


Money 101

A financial guide for students



Credit Canada
Debt Solutions



Credit Canada

Debt Solutions

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Proceeds from sales are directed toward
consumer education in money management skills.

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The meaning of money

What does money mean to you?

What does financial wealth mean to you?

What do you think about when you hear the words: budget, credit, inflation, investment?

What percentage of your money do you save?

Do you like to talk about money?

Give it a little R-E-S-P-E-C-T.

Perhaps you've heard that classic R&B song made famous by Aretha Franklin. "R-E-S-P-E-C-T, find out what it means to me," Aretha sings. We suggest you think about the song as an anthem as you consider the crucial question of what money means to you.

Above all, money deserves your respect. The attitude you bring towards it – and the knowledge and skills you apply in handling it – are vital to a life well lived.

Just ask those who think otherwise. They suffer financial stress their whole lives: running out of cash each month, feeling deprived or struggling to pay bills.

The haves and the have nots.

In terms of material wealth, you likely know lots of people who have or who do not have. Usually, their circumstances are not simply a matter of luck or fate; they are a matter of choice.

On the road to good money management, it's wise to remember that you above all are the master of your finances.

You will find low wage earners who live comfortably and well because they are smart about the way they spend, save and manage money. On the other hand, you would be surprised by how many high wage earners have trouble making ends meet through ignorance of their expenses, lavish spending and living beyond their means. Again, it all comes down to treating money with respect.

It's to your credit to learn about credit.

Shopping for credit is similar to shopping for normal goods and services. There are lots of companies out there that are willing to extend credit to newcomers. Each offers terms of service and interest rates that you should study and compare for the value they offer and the obligations they place on you. Look at life's big picture. Take into account all the advantages,

The terms of credit

disadvantages, costs and responsibilities involved in getting credit. Two important rules of thumb apply here:

- Don't confuse what you want with what you need in life.
- Make the effort to know all your monthly expenses to create a basis for the amount of debt you can comfortably manage over short or long periods of time.

Remember that financial difficulties are often the result of a lack of information and planning rather than a lack of money.

Some terms you should know.

Simply put, credit is the process of purchasing something now that you will pay for in the future. As the advertisers say: buy now, pay later. But you should understand that credit is a privilege granted to you rather than a right to which you are entitled. To put it another way, credit is debt.

As you consider obtaining credit, familiarize yourself with common terms relating to the field. As one who pays for goods and services and seeks out credit, you are defined as the **consumer**. The **lender**, or one who offers you credit, is known as the **creditor** or **credit grantor**.



"Graduates, faculty, parents, creditors ..."

Key to the relationship between the consumer and the creditor is the Credit Bureau, which serves as a clearing house or library for credit history information. Your credit rating determines your credit eligibility.

Credit eligibility. Know the 3C's.

Character. Capacity. Collateral. These are the three main factors creditors consider to determine your credit eligibility. A number of points and questions about you relate to each of these areas.

Character.

- Does your financial record show you are trustworthy?
- Have you shown responsibility in handling your finances in the past?
- Have you been on time in making payments?
- Is your credit report good?
- Do you show a strong willingness to pay back your loan(s) or credit card account(s)?

Capacity.

- What is your ability (past, present and future) to meet your financial obligations?
- How long have you been working?
- How secure is your job?
- Do you rent or own your living accommodations?
- How long have you been living at your current address?
- How much is your income?
- How much do you currently owe and to whom?

Collateral.

- Is what you own (assets, i.e. a car, computer, a collection, stereo, etc.) more than your liabilities (debts)?
- Do you own anything for use as collateral that's worth more than the amount you want to borrow?
- Do you have the necessary assets to pledge as security for a loan?

The meaning of credit

What does credit mean to you? How would you use it?

What do you think the advantages of using credit are?

What do you think the disadvantages of using credit are?

Let's talk about types of credit.

It's important to know about all the types of credit that are available to you. As life goes on, you'll want to consider the type or types of credit that serve you best. Many different types of credit are available today.

They include the following:

- Credit cards (also known as revolving credit cards)
- Charge cards
- Personal lines of credit
- Personal loans
- Student loans
- Installment plans
- Overdrafts
- Credit promotions

Let's look at each of them individually.

Credit cards.

Credit cards (also known as revolving credit cards) allow you to make purchases for which you will be billed at a later date. They include a specific limit on how much you can purchase.

Credit card companies allow you to carry a balance from one month to another. This is why they are also known as revolving credit cards.

You are required to pay minimum monthly payments.

Unpaid balances are subject to interest charges based on the annual percentage rate agreed upon by you and the credit card company.

There are two main types of revolving credit cards.

1. Financial institution credit cards from banks, credit unions and trust companies.
2. Department and retail store credit cards from places like Canadian Tire, Zellers and Sears.

Types of credit

Benefits of a credit card.

- It will help you establish a credit history.
- It's more convenient than carrying cash.
- It allows you to borrow free of charge if you always pay the balance in full by the due date.
- It can offer incentives, such as reward points that you can use towards purchasing certain products.
- It allows you to pay conveniently for purchases made over the telephone or Internet.

Risks of a credit card.

- It's easier to make purchases, but there's the risk that you will create more debt than you can handle.
- It can negatively affect your credit rating if your monthly payments are late.
- It can carry conditions that are hard to understand.
- Interest rates are generally higher on credit cards than other forms of credit like personal loans or lines of credit.

Charge cards.

With charge cards, the total balance must be paid by the due date. For example, travel cards from American Express and Enroute Diners Club.

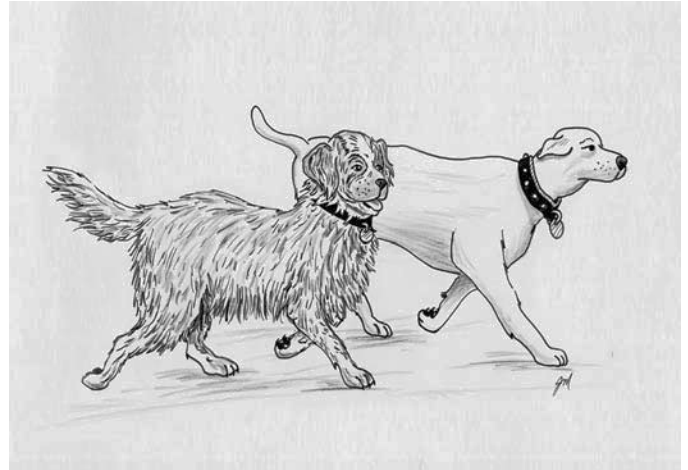
Benefits and risks of charge cards.

The big benefit of using a charge card is it allows you to borrow against an unlimited amount. Charge card risks are similar to those of a credit card.

- You may be compelled to overspend and create more debt than you can handle.
- Your credit rating may suffer if you are derelict in paying your outstanding balance.

Personal line of credit.

A personal line of credit allows you to withdraw money as needed up to a maximum credit limit.



"Let's be honest, man's best friend is money."

Your financial institution will charge you interest from the day you withdraw money from your line of credit until the debt is paid in full.

Benefits of a line of credit.

- It provides the convenience of borrowing money whenever you need it. So you avoid having to reapply for a loan every time you need more money.
- It offers convenient repayment methods.
- It affords lower interest rates than credit cards.

Risks of a line of credit.

Perhaps the biggest risk associated with a line of credit is it is mistakenly seen as a source of revenue rather than as a source of debt. So it poses the threat of creating a debt that is unmanageable.

Personal loans.

A personal loan is a set amount of money to be repaid over a specific period of time with a fixed monthly payment. Consumer loans are granted by:

- Chartered banks
- Consumer finance companies
- Trust companies
- Credit unions

Types of credit



Benefits of a personal loan.

There are two significant benefits to taking out a personal loan.

- The loan can be flexible.
- You can use the borrowed money any way you like.

Risks of a personal loan.

Personal loans do not come with the safeguards of credit cards or charge cards, which track and record specific purchases. Unlike cash, credit and charge cards allow you to immediately address problems associated with faulty products or undelivered goods. Again, with personal loans, there is always the danger of creating more debt than you are able to afford.

Student loans.

Student loans are usually provided by the government or by financial institutions.

Benefits of a student loan.

- It helps you fund your post-secondary education.
- The government pays interest on the loan while you are studying full time.
- It offers repayment options to help you avoid financial difficulties when you graduate.

Risks of a student loan.

You may create an unmanageable debt which you are required to repay upon the completion of your studies.

Installment plans.

Installment plans are used when you make a significant purchase. By way of example, you may purchase a flat screen television and pay for it through monthly installments, which include interest charges.

Benefits of installment plans.

- With installment plans, the retailer will supply insurance for accidental loss of the goods as long as the individual is still the owner.
- Monthly payments are affordable.

Risks of Installment plans.

- The price of the product increases due to interest charges.
- The retailer remains the owner of the goods until they are fully paid.

Overdraft.

An overdraft provides a buffer on your bank account. It allows you to withdraw money beyond a zero balance. There is usually a limit to the amount of extra money you can access from your account.

Benefits of an overdraft.

The obvious benefit here is you can access money from your bank account beyond a zero balance.

Risks of an overdraft.

- Financial buffers offer the allure of access to extra cash, so like any form of debt, you can get into trouble.
- Overdrafts generally include higher interest rates than other forms of credit.

Credit problems

Credit-based promotions.

We have all seen “buy now, pay later” promotions for goods involving such things as furniture, electronic products, etc.

These are known as credit-based promotions. You are encouraged to purchase goods for which you often pay nothing for one or two years.

The danger with these promotions is that the consequences of failing to make your payments on time are not always clear.

Be sure you are aware of penalties that may apply in the event that you do not pay on time.

The small print in the contracts you sign can make for some very unwelcome surprises. You may end up paying all kinds of interest on a promotion that was originally supposed to be interest free.

Let’s look at a specific example. Say you were to buy the latest MP3 player worth \$200 and you failed to pay for it within a two-year time limit specified in the contract.

You could end up paying upwards of 30 percent interest amounting to \$120.00 accrued over the two years.

In the end, you could end up paying \$320.00 plus service charges.



“Your credit line is very short.”

Warning signs of credit problems.

Avoid trouble by knowing the signs.

Money and credit are dynamic in nature. As such, they are open to misuse. By knowing the warning signs associated with the mishandling of credit, you can avoid situations that, if ignored, can easily spiral out of control. Any of the following are possible signs that you may need to take a closer look at your finances.

1. Using credit because you don’t have cash on hand.
2. Paying only the monthly minimum payment.
3. Stalling one creditor to pay another.
4. Charging more than the monthly amount you pay on your accounts.
5. Using a cash advance from one creditor to pay another creditor.
6. Applying for a second Visa or Mastercard at another branch.
7. Requesting an increase on spending limits on credit cards, overdrafts, etc.
8. Taking add-on loans or consolidation loans while continuing to use your credit cards.
9. Borrowing from a friend or family member just to make ends meet each month.

Consequences of mishandling credit.

Bill collection agencies.

Creditors hire bill collection agencies to collect on bad debts. The agencies have incentive to succeed because their commissions are based on how much is collected. Their legal but often aggressive actions – including frequent phone calls and demanding letters – have been known to place great stress on the lives of debtors.

Credit rating

A bad credit rating.

Failure to pay debts will affect your credit rating. A bad credit rating can broadly affect your life.

1. If you apply for a credit card, chances are you will not be approved.
2. If you apply for a personal loan, your chances of approval are poor.
3. If you apply for a small business start-up loan, you may be denied.
4. If you want to lease or rent-to-own a product, you may be denied.
5. If you want to buy a house, you may not get approval for your mortgage.
6. If you wish to move to a new rental property, your future landlord can do a credit check and deny your application.
7. If you seek employment, your prospective employer may hire someone else with a better credit rating.
8. If you apply for a student loan, you may be denied.

Repossession of collateral.

Creditors have the legal right to repossess any financial asset you have pledged as collateral towards your debt.

Typically, these assets include everything from TV sets, stereo equipment, cars and homes.

Garnishment of wages.

Money owed to a creditor can be deducted directly from the paycheck you receive through an employer.

A garnishment is awarded by the courts to a creditor after a signed judgment. A judge may allow up to 20 percent of gross wages to be sent directly to the creditor from the debtor's paycheck until the debt is paid off.

Keeping a good credit rating.

Never underestimate the importance of establishing and maintaining a good credit rating. In today's credit-oriented world, it can make all the difference between a life of comfort and a life of misery.

To manage debt wisely, keep the following points in mind.

- Pay your bills on time. If you are unable to pay your bills as agreed, contact your creditors and explain your situation. Also, you can contact the non-profit credit counselling service Credit Canada for professional, unbiased and confidential advice.
- Do not sign a credit contract until you have read it and understood it. If you don't understand it, ask questions until you are satisfied.
- Never sign a blank sheet. Your signature is your promise to pay and a contract is a legal document. Know the implications.
- Try to pay off any debt quickly. Avoid prolonged low monthly payments and avoid having to refinance at higher interest rates.
- Deal with known, respected and established companies.
- Make sure you understand the total cost of your purchase.

“A good credit rating can make all the difference between a life of comfort and a life of misery.”

Credit rating guide

Your credit rating guide for using the common language for consumer credit.

Usual manner of payment.	0	R	I
Too new to rate; approved but not used.	0	0	0
Pays (or paid) within 30 days of billing; pays account as agreed.	1	1	1
Pays (or paid) in more than 30 days, but not more than 60 days, or not more than one payment past due.	2	2	2
Pays (or paid) in more than 60 days, but not more than 90 days, or two payments past due.	3	3	3
Pays (or paid) in more than 90 days, but not more than 120 days, or three or more payments past due.	4	4	4
Account is at least 120 days overdue but is not yet rated "9".	5	5	5
Making regular payments under a consolidation order or similar arrangement through a third party.	7	7	7
Repossession (indicates it is a voluntary return of merchandise by the consumer).	8	8	8
Bad debt; placed for collections; skip.	9	9	9

TERMS: 0 = Open Account R = Revolving or Option I = Installment

To get a copy of your report contact Equifax Canada Inc., Trans Union Canada.

Equifax Canada Inc., Box 190 Jean Talon Station, Montreal, Quebec, H1S 2Z2
Phone 1 800 465 7166 Fax 514 355 8502 Internet www.econsumer.equifax.ca

Trans Union Canada – Consumer Relations Centre, P.O. Box 338, LCD 1, Hamilton, Ontario, L8L 7W2
Phone 1 866 525 0262 or 905 525 0262 Internet www.transunion.ca

Money management

Plan and set financial goals.

Plan for your financial future with major purchases and expenses in mind (i.e. buying a car, a home, raising kids and providing them with an education). Above all, set financial goals.

Good money management begins with setting goals. Goals give you direction, a purpose for the way you spend your money and guideposts for the way you live. Goals motivate and encourage you. Goals are basically dreams and wishes that could come true. If your goals are specific enough, you will be motivated to balance your spending and savings to reach your goals.

If you don't set goals, you will likely end up wishing you had. Without focus, you can be easily sidetracked, losing sight of your dreams and the spirit to make them a reality. The idea of goal setting is to maintain focus.

Also, once goals are set you should reconsider them periodically because life can be full of changes.

Write your goals down.

The best way to start setting goals is to put them in writing. Take time to consider short, intermediate and long-term goals for yourself and enter them in the chart below. As life changes and new goals present themselves, follow the same procedure with written goals as reminders of your aims and desires.

Know your financial situation.

Look at your goals realistically from the point of view of where you are in the present. Determine monthly living expenses, periodic expenses and monthly debt payments.

My Financial Goals

Short Term Goals (to be met within the next year or so).

Objective / Amount	Estimated Cost	Target Date	Monthly
1. _____	\$ _____	_____	\$ _____
2. _____	\$ _____	_____	\$ _____
3. _____	\$ _____	_____	\$ _____

Intermediate Goals (that can be reached within 5 years).

Objective / Amount	Estimated Cost	Target Date	Monthly
1. _____	\$ _____	_____	\$ _____
2. _____	\$ _____	_____	\$ _____
3. _____	\$ _____	_____	\$ _____

Long Term Goals (these goals take the longest to achieve, 10 - 15 years or longer).

Objective / Amount	Estimated Cost	Target Date	Monthly
1. _____	\$ _____	_____	\$ _____
2. _____	\$ _____	_____	\$ _____
3. _____	\$ _____	_____	\$ _____

Money management

A monthly budget for students.

Develop a realistic budget.

Create a budget based on your actual circumstances and follow it as closely as possible. This will help you achieve your goals and fulfill your everyday needs and financial responsibilities. It's all about organizing your monthly expenses based on your income. Think of it as a tool to manage your finances regularly by tracking where your money comes from and what it goes towards. Factors that you need to take into consideration when starting a budget.

- **Net income:** the portion of your income that you get to spend after paying your taxes and other expenses such as medical benefits.

Budgeting example.

Joanne gets an allowance of \$20.00 per week from her parents. Her parents say that her allowance is enough for her personal expenses such as entertainment and other needs. Since she has decided to purchase camping gear valued at \$160.00, Joanne plans to save money as follows.

Net monthly income	\$80.00
<hr/>	
Personal expenses	\$40.00
Savings	\$40.00

Joanne's goal is to save \$40 per month for four months so she can pay for her camping gear.

- **Fixed expenses:** these are expenses that are the same every month such as rent or the cell phone bill.
- **Variable expenses:** these are expenses that occur regularly; however, they can vary on a monthly basis based on personal use. Examples include grooming and clothes.
- **Incidental expenses:** expenses that happen occasionally like gifts or travel expenses.

If you are considering post secondary studies you may need to consider the following costs.

Typical cost for an eight-month education program.

Costs	Living away from home	Living at home
Tuition & Books	\$_____	\$_____
Supplies	\$_____	\$_____
Housing	\$_____	\$_____
Food	\$_____	\$_____
Utilities	\$_____	\$_____
Clothing	\$_____	\$_____
Grooming & Hair Cuts	\$_____	\$_____
Health Costs	\$_____	\$_____
Entertainment	\$_____	\$_____
Local Transportation	\$_____	\$_____
Return Transportation	\$_____	\$_____
Total	\$_____	\$_____

Note: It's a good idea to do research ahead of time. Get the numbers on what you expect your tuition and other school expenses will be. Living at home may be more affordable. But if you do want to go away for school there are bursaries, grants and student loans that can help you achieve your education goals.

Money management

Don't allow expenses to exceed income.

To ensure expenses don't exceed your income, keep a daily record of your spending on all essential and non-essential items. Credit Canada's portable Monthly Budget Tracker is a great tool you can take with you just about anywhere for a reliable spending record.

Here are other points to remember to keep spending on track.

- Avoid paying only the minimum on your credit card(s).
- Do not charge more each month than you are repaying to your creditors.
- Save money for large purchases before buying them.

Make a determined effort to save.

It's always wise to think about your life in a larger context when thinking about how you will manage your money. For example, how are you going to manage periodic expenses such as a car, a vacation, a new wardrobe, etc.?

The smartest and easiest way to save money is to take a percentage of your income and put it away each time you receive a paycheque from your employer (or client, if you're in business for yourself). Put that percentage of money in your savings account or some other type of investment vehicle.

Your personal banker can help you by setting up an automatic withdrawal that will take money from one account and deposit it into another every time you get paid.

Discipline yourself.

By taking money off the top before there's a chance to spend it, you will find it's easier to save. If, on the other hand, you take a wait-and-see approach to what might remain in your account at the end of the month, you are apt to find you spent the money you might have saved simply because it was there for the taking.

It takes discipline to start a savings program. But once you do, you may be surprised by how fast it grows and what a difference it promises to make in your life. Try to save from five percent to 10 percent of all income received.

Pay your bills on time.

Just as savings will surprise you as they grow, so too will the totals on your monthly bills if you neglect to pay them on time. Timely payments also ensure a good credit rating.

If for whatever reason you cannot pay your bills as agreed, talk to your creditors and explain the situation. They may be more understanding than you think, providing you with a little breathing space and payment options that help you get over the hump.

If your circumstances seem unmanageable, you should contact Credit Canada for professional help from credit counsellors offering expertise and programs of assistance to anyone with debt problems.

Understand the difference between needs and wants.

We're all human, and we're all inclined to purchase something when we have the money in hand to do so. However, the question always remains, is it a wise purchase? Beware of impulse purchases.

Buying small items on a whim may not seem to matter to your finances. However, if you practice impulse buying often enough, those little purchases really add up.

Guard against frivolous spending.

It's good to guard against impulse buying, which is often carried out without much thought.

For example, when you stand in the aisle of a grocery store and decide to purchase one of many tabloid newspapers displaying a shocking celebrity expose.

Money management

One of the best ways to discipline yourself is to record the little impulse purchases you constantly make.

Again, a booklet like Credit Canada's Monthly Budget Tracker will be of great help. You may be surprised to find just how much you spend over time on little items you didn't think mattered in terms of your budget.

As an interesting exercise, write down some examples of impulse buying that may apply to you or others.

1. _____

2. _____

Use credit wisely.

- Use credit for convenience and planned purchases.
- Determine the total you can comfortably afford to purchase on credit.
- Don't allow your credit payments to exceed 20 percent of your net income.
- Avoid borrowing from one creditor to pay another.
- Use just one credit card with a low interest payment.

Keep a record of daily expenditures.

We can't say this enough. Be aware of where your money is going. Make use of a spending diary like Credit Canada's Monthly Budget Tracker.

It will help you identify areas where adjustments need to be made for smart budgeting and good money management.

Keep at least two bank accounts.

Your bank account should include a personal chequing account and a savings account.

- Use the chequing account for regular monthly expenses.
- Use the savings account to help you meet your financial goals and as a buffer for emergencies.

Debit cards.

Debit cards are a simple way to avoid having to carry cash around. Also, debit cards help you automatically track your expenses through your bank statements since your charges are made directly to your bank account.

Track your expenses.

Remember, use your Credit Canada Monthly Budget Tracker or the expense guide on Page 13 of this booklet to track your expenses and identify areas where adjustments need to be made.



"The quills protect me from creditors."

Expense guide

Here's a chart you can use for monthly expenses.

Expenses	Budget	Actual	Revised for Next Month
Books / Stationery			
Internet			
Cell Phone / Telephone			
School Related Activity Fees / Sports			
Laundry / Dry Cleaning			
Cable T.V.			
Entertainment			
Snacks / Pop / Lunches			
Hair Dresser / Barber			
Personal Grooming Items			
Clothing			
Automobile			
Insurance			
Gas			
Transit			
Savings			
Other			
Other			
Total Income: _____			
Total Expenses: _____			
Funds Available = _____			

**Feel free to contact
Credit Canada Debt Solutions.**

As a non-profit organization we provide affordable,
practical assistance and confidential guidance to people in need.
We are registered and Provincially licensed.

For a free debt assessment go to:
CreditCanada.com

416 228 DEBT (3328)
Toll free: 1 800 267 2272

