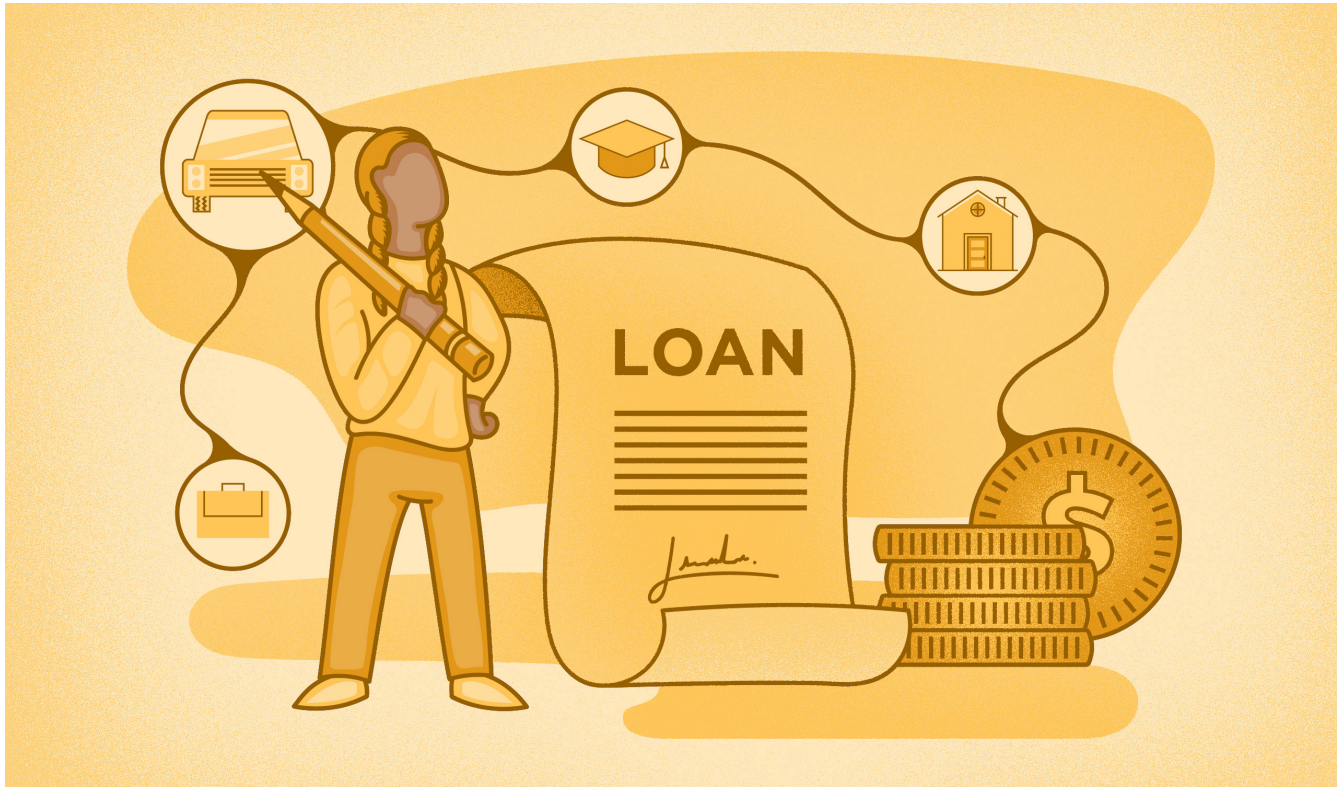
Money Matters

for Indigenous Peoples



Borrowing Money

LifeLiteracyCanada

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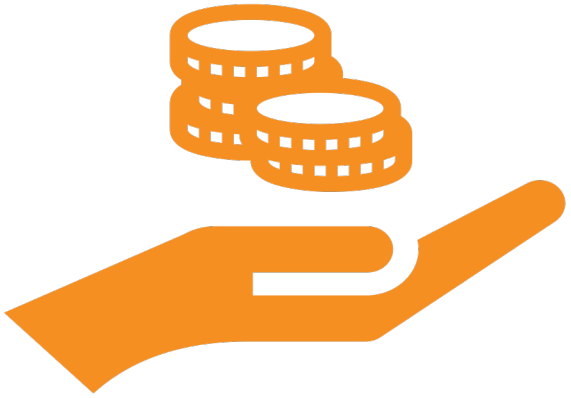
TD READY COMMITMENT

The values of the 4R's

- Respect
- Responsibility
- Reciprocity
- Relationships



When something is **reciprocal,** it is shared or felt by both sides.

A reciprocal process means doing things in a way that balances giving and taking.

In today's workshop you will learn:

- What credit is
- How credit works
- What credit can do for you and how to manage it
- Ways to borrow money
- How interest affects the amount you owe
- How to build your credit history and why it's important

Borrowing money

This workshop is about **credit**:

- What it is
- How to use it wisely
- How to get it under control when you have a lot of debt

Helpful words

Credit is when you buy now and pay later. You usually pay a fee when you use credit. The fee includes interest and often involves service charges.

Debt is the money you've borrowed and need to repay. The amount of debt usually includes the amount you borrowed plus interest.

Interest is a fee someone pays when they borrow money. When you get a loan or use credit, you need to pay back the amount you borrowed plus interest.

Getting in touch with your money

- ❑ I have a bank account, and I like going to the bank
- ❑ I would probably want a bank account if I knew more about them
- ❑ Banks make me uncomfortable so I use a cash store when I need money
- ❑ None of the above apply to me. Here's my situation:

Let’s talk about it…

- Do you think debt is bad?
- Do you think credit is bad?
- Do you think there is such a thing as “good debt” or “good credit”?
- Do you think you can use credit to improve your life?

- Have you ever made a spending plan?
- What did it show?
- What do you do if you spend more money than you make?

Spending more money than you make is a common way to build up debt. If you don’t watch your money closely, debt can surprise you.

Meet Leland

Leland's local store had a "Buy Now, Pay Later" sale. He saw a big- screen TV in a flyer, and decided that he couldn't pass up such a good deal. Leland bought the TV using his **credit card**.

He also has another credit card from a department store. Sometimes he has to get a **cash advance** on one credit card to make the **minimum payment** on his other credit card. So far, he has managed to make all the payments.

Money words

A **credit card** is a card that lets you use credit to buy things now and pay later. If you don't pay your full bill each month, you'll have to pay fees and interest.

A **cash advance** is when you use your credit card at the bank or bank machine to take out cash when you don't have any available funds in your chequing or savings accounts.

A **minimum payment** is the amount you need to pay toward a credit card bill each month.

Good debt, bad debt

Think back to Leland's story. He is on the fast track to big money trouble. Do you see any warning signs?

Warning signs

1._____

2._____

3._____

Have you ever bought something on a “Buy Now, Pay Later” offer?

What were the rules about when you had to pay?

Was the experience good or bad for you? Use the values of respect, responsibilities, and relationships to help you describe the situation.

If you’re having trouble paying for the things you need or want, avoid “Buy Now, Pay Later” offers. If you don’t pay on time, the fees and high interest rates will make your debt even bigger.

Meet Kelly

Kelly's bank suggested that she get a credit card. They said it would help her start building a **credit history**. Kelly only uses the card to buy a few things each month, and when she gets her bill, she pays the full amount she owes. Kelly was glad she had the credit card when her mother got sick. She was able to buy a bus ticket to visit her mother in the hospital.

Credit history is information about who you've borrowed money from, and how long it takes you to pay back the money you've borrowed.

How does Kelly use her credit card differently from Leland?

1. _____

2. _____

3. _____

If you're careful, credit cards can be great tools. Only use them when you know you can pay off the bill at the end of the month. This is one way to respect yourself and meet your responsibilities to others.

Money Challenge

Do you know the date when a credit card or another payment is due each month? Knowing this date helps you avoid interest and late fees. You can find this information on your bill.

What's my situation?

Statement	Yes	No	I don't know
1. I pay my bills on time.	❑	❑	❑
2. I'm careful about the total amount of debt I have.	❑	❑	❑
3. I know what happens if I make a late payment on the money I owe.	❑	❑	❑
4. I've asked for my **credit report**.	❑	❑	❑
5. I avoid using the kind of credit that charge high fees and interest.	❑	❑	❑
6. I have a credit cart to help me build a good credit history.	❑	❑	❑
7. I've gone for a free appointment with a **credit counsellor**.	❑	❑	❑
8. I have a debt **payment plan** for myself.	❑	❑	❑

Helpful words

A **credit report** is a report about your credit history. It says who you've borrowed money from and whether you paid the money back on time.

A **credit counsellor** is a person who can help when you're having trouble managing your debt.

A **payment plan** is a schedule for paying back your debt. It can include information on when you'll make payments and the amount you'll pay.

Ways to borrow money

Payday loan: A short-term loan from a cash store

Buy now, pay later: When a store sells you an item now, and you agree to pay for it by a certain due date

Rent to own: You rent an item. After you make payments for a certain amount of time, you own it or can buy it. You don’t own it while you’re renting it.

Pawnshop: A place where you can get a loan by leaving behind an item you own, like a watch or TV

Lease: You rent an item for a period of time but don’t own it

More ways to borrow money

Bank credit card: A credit card from a bank or other financial institution

Retail credit card: A credit card from a store

Line of credit: A pre-approved loan that lets you borrow money when you need it

Cash advance on a bank credit card: A cash loan from your credit card

Overdraft: A way to withdraw more money than you have in your bank account

More ways to borrow money

Secured credit card: A credit card where you may a payment before you use it

Personal loan: A loan for you to use personally, not for a business. Also called a consumer loan

Mortgage: A personal loan to help you buy a home. It’s often considered a “good” debt

Student loan: A government loan to help pay tuition and other costs. It’s often considered a “good” debt

Different kinds of credit

- Have you, your partner, or any of your group members used any of these kinds of credit?
- How much interest did you and they pay on the money they borrowed?
- What happened if you and they were late paying the money back? How did this affect your relationship with the lender? With yourself and with the people in your life?

Helpful words

A **loan** is money that you have borrowed. You agree to pay it back in a certain amount of time, sometimes in a few different payments. You'll also pay interest or fees on top of paying back the money you borrowed.

Let’s talk about it…

- What are the good and bad things about the different ways of borrowing money?
- If you have to borrow money, what way would you choose first?
- If you’re not sure which way is best for you, how can you get help?
- How does borrowing money fit into your cultural beliefs? How does it fit into the “4 Rs” values of respect, responsibility, reciprocity, and relationships?

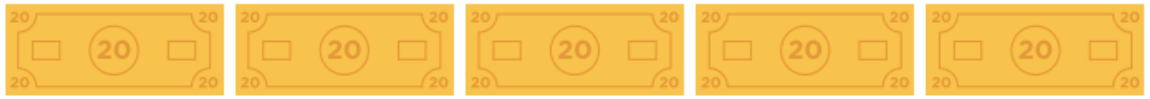
Let’s compare the cost of a payday loan with other types of short-term loans

Buyer beware!

The interest rate for retail credit cards is higher than for bank credit cards. That means that this type of “deal” can end up costing you a lot of money.

How does interest work?

Let's say you borrow $100.



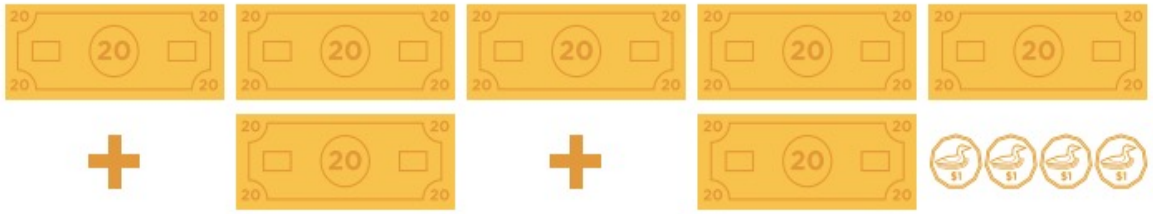
Your interest rate is 20% per year **(APR)**.

If you don't pay back the amount you borrow on time, you'll have to pay back an extra 20% on top of what you already owe.

APR is short for Annual Percentage Rate. **APR** is the interest rate that's charged on a loan each year

How does interest work?

The amount you owe can keep getting bigger if you miss more due dates. That's because you'll pay interest on the whole amount you owe, including the interest. This is called compound interest.



Some credit cards have penalties when you miss payments. They might raise your APR, so you'll pay even more interest. Some cards also have service charges and annual fees. The amount of money you owe can grow very quickly.

Leland's choice

Leland's cell phone has stopped working. He found a store that will repair his phone for $60. He needs his phone, but he doesn't have the cash to repair it. Sometimes we all have to borrow a little money to get the things we need.

How can he pay to get his phone fixed? Let's assume he'll pay back the money within one year. He could pay for the repair with a credit card, payday loan, or line of credit. Let's do some money math to decide which way to borrow money is best.

The cost of borrowing $60 for one year is:

- **Payday loan:** 25% + $10 service fee
- **Line of credit:** 5%
- **Credit card:** 20%

Payday loan		Line of credit		Credit card	
Loan:	$60.00	Loan:	$60.00	Loan:	$60.00
Interest: (.25 on calculator)	x 25%	Interest: (.05 on calculator)	x 5%	Interest: (.20 on calculator)	x 20%
Total Interest:	$15.00	Total Interest:	$ 3.00	Total Interest:	$12.00
+ Service Fee:	$10.00	+ Service Fee:	$ 0.00	+ Service Fee:	$ 0.00
Total cost of loan:	$25.00	Total cost of loan:	$ 3.00	Total cost of loan:	$12.00

Money math: short-term loans

Imagine you're sleeping on a very lumpy mattress. You'd like to get a new one so you can sleep better. But you don't have the cash to replace it right now.

Let's assume a new mattress will cost $200. You could pay with a payday loan, line of credit, or credit card. If you plan to pay back the loan in one year, how much would it cost you to borrow $200 to buy a mattress?

Payday loan	
Loan:	$200.00
Interest: (.25 on calculator)	x 25%
Total Interest:	$
+ Service Fee:	$ 10.00
Total cost of loan:	$

Line of credit	
Loan:	$200.00
Interest: (.05 on calculator)	x 05%
Total Interest:	$
+ Service Fee:	$ 0.00
Total cost of loan:	$

Credit card	
Loan:	$200.00
Interest: (.20 on calculator)	x 20%
Total Interest:	$
+ Service Fee:	$ 0.00
Total cost of loan:	$

Money math: short-term loans

Answer:

Payday loan

Loan:	$200.00
Interest: (.25 on calculator)	x 25%
Total Interest:	**$ 50.00**
+ Service Fee:	$ 10.00
Total cost of loan:	**$ 60.00**

Line of credit

Loan:	$200.00
Interest: (.05 on calculator)	x 05%
Total Interest:	**$ 10.00**
+ Service Fee:	$ 0.00
Total cost of loan:	**$ 10.00**

Credit card

Loan:	$200.00
Interest: (.20 on calculator)	x 20%
Total Interest:	**$ 40.00**
+ Service Fee:	$ 0.00
Total cost of loan:	**$ 40.00**

Money math: Interest

Imagine you're planning to spend $500 on a plane ticket. You want to get a new credit card to pay for it because you don't have enough cash right now and it's an emergency. You plan to pay off the balance in one year.

Which credit card would be the smarter money choice?

- Credit Card A, with an interest rate of 19% and no annual fee?
- Credit Card B, with an interest rate of 12% and an annual fee of $50?

Hint!
To figure out the interest you'll pay for a year, multiply the balance by the interest rate. Write the interest rate as a decimal. For example, 19% as a decimal is 0.19 and 12% as a decimal is 0.12.

Credit card A: interest rate of 19% with no annual fee

Balance	Interest	Annual fee	Annual cost (not including balance)
$500	($500 x 0.19) = $95	$0	$95

Credit card B: interest rate of 12% with an annual fee

Balance	Interest	Annual fee	Annual cost (not including balance)
$500	($500 x 0.12) = $60	$50	$110

You try it!

Which card is better for a $1,000 balance: the credit card with an annual fee or the card with no annual fee? Which credit card would be the smarter money choice?

Credit card C: interest rate of 19% with no annual fee

Balance	Interest	Annual fee	Annual cost (not including balance)
$1,000	($1,000 x 0.19) = $190	$0	$190

Credit card D: interest rate of 12% with an annual fee

Balance	Interest	Annual fee	Annual cost (not including balance)
$1,000	($1,000 x 0.12) = $120	$50	$170

You try it!

Which card is better for a $350 balance: the credit card with an annual fee or the card with no annual fee? Which credit card would be the smarter money choice?

Credit card E: interest rate of 21% with no annual fee

Balance	Interest	Annual Fee	Annual Cost (Not Including Balance)
$350	($350 x 0.21) = $ 73.50	$0	$ 73.50

Credit card F: interest rate of 18% with an annual fee

Balance	Interest	Annual Fee	Annual Cost (Not Including Balance)
$350	($350 x 0.18) = $ 63.50	$25	$ 88.00

You try it!

Which card is better for a $200 balance: the credit card with an annual fee or the card with no annual fee? Which credit card would be the smarter money choice?

Credit card G: interest rate of 22% with no annual fee

Balance	Interest	Annual Fee	Annual Cost (Not Including Balance)
$200	($200 x 0.22) = $ 44.00	$0	$ 44.00

Credit card H: interest rate of 12% with an annual fee

Balance	Interest	Annual Fee	Annual Cost (Not Including Balance)
$200	($200 x 0.12) = $ 24.00	$15	$ 39.00

Let’s talk about it

- **Is it good to have a credit card?**
- **If so, what is the best kind of credit card? Is it the same for everyone?**
- **If you have a credit card now, is it the best one for you?**
- **Is it easier or harder for some people to get credit cards? Why?**

Interest rates. Interest rates are very different from card to card. Choosing a card with a lower interest rate can save you lots of money.

Services charges and fees. Some credit cards have an annual fee. Does the annual fee help you save money by giving you a lower interest rate?

The cost of the rewards program. Some credit cards offer rewards for using the card. Are the rewards worth more than your interest payments?

When choosing a credit card, this is what's most important to me:

Money tip

If you can't pay off your credit card balance, see if you can transfer it to a personal loan or a line of credit with a lower interest rate. You'll pay less interest on the money you owe.

Look for the information box

Make sure you know about the fees and interest rate before you sign a **contract** for a credit card.

One way to get these details is to read the **information box** on the credit card application.

"When you apply for a credit card, you agree to accept all of the terms and conditions, including interest rates and fees. Read the entire application carefully before submitting it." *This information is from Financial Consumer Agency of Canada*

Helpful words

A **signed contrac**t is a legal document that shows an agreement between you and another person or a business. You are responsible for what you sign, so make sure you understand the terms of the contract.

An **information box** is the boxed area on your credit card agreement. It's also on the statement or bill you get each month. It tells you important details about your credit card.

Let’s talk about it

- What could you do if you have trouble reading or understanding a contract?

- Has a “pushy” salesperson ever rushed you to sign a contract?

Initial credit limit	**$5,000**
Annual interest rate or rates	These interest rates are in effect the day your account is activated. Promotional rate on purchases: **4.99%** for your first three monthly statements Purchases: **19.75%** following the promotional period Cash advances: **21.5%** Balance transfers: **21.5%** Your interest rate will increase to **24.75** on your next statement if you: • Make a late payment • Go over your credit limit • Make a payment that is returned • Fail to meet any of the terms in the cardholder agreement
Interest-free grace period	**21 days** When you use the card to make purchases, you will benefit from an interest-free grace period of at least 21 days if you pay off your balance in full by the due date. There is no interest-free period on cash advances or balance transfers.
Determination of interest	If interest is charged, it is calculated on your daily average balance and charged monthly to your account on the last day of your billing cycle.

Sample information box for a credit card agreement

Getting your money in order

Paying off your full credit card balance each month saves you money, since you're not paying interest fees. Paying off other debt, like a line of credit, works the same way. Paying back the money you borrowed also helps you build a good credit history and get a better **credit score**.

If you can't pay off your full credit card balance each month, you still need to make the minimum payment to keep your credit history strong. Lowering the amount you owe, even a little, saves you money since you're paying less interest.

Money words

Your **credit score** or rating is a number between 300 and 900. It shows how likely you are to pay back a loan based on your credit history. A good credit score can help you get a lower interest rate when you need to borrow money.

A first step to pay off debt

Interest rate plan

Look at the interest rates on your different loans. Find the loan with the highest interest rate, and pay off that balance first.

Then start paying off the debt with the second-highest interest rate. Keep going until you pay off all your debt. This plan can help you save the most money over time.

Snowball plan

Look at the size of your loans. Find the smallest loan, and pay off that balance first.

Then start paying off the second largest loan. Keep going until you pay off all of your debt. This plan can help you stay motivated as you watch the number of debts go down.

Take a first step

Write down all the money you've borrowed, including how much you owe and the interest rate.
What should you pay off first?

Who you owe money to	How much you owe	Interest rate	Other fees

Protect your money

- Check your monthly credit card statements to make sure that you made all the transactions.
- Cover the keypad with your hand or body when you enter your **PIN** to make sure no one can see it.
- Choose a PIN that's hard for someone else to guess.
- Keep your PIN secret.
- Never tell anyone your credit card information over the phone or through email.
- Know how to contact your credit card company right away if your credit card is stolen or you see transactions that you did not make on your statement.

PIN is short for **Personal Identification Number**. This is the code you use at bank machines or when paying for something at a store.

Let’s talk about it

- Have you ever been a victim of credit card fraud?
- If so, what happened? How did someone steal your personal information or credit card?
- Is there anything you do differently now to protect your money?

Why credit is important

1. **Lenders**, like banks and credit card companies, may use it to decide if they'll give you a loan, credit card, or mortgage.
2. **Landlords** may use it to decide if they'll rent you an apartment.
3. **Insurance companies** may use it to decide if they'll sell you insurance for your car or home.
4. **Employers** may use it to decide if they'll hire you.

Tips to build good credit history

1. **Use credit:** You can't build a credit history without using credit. Just make sure that when you use it, you follow these tips so that you build a good credit history.
2. **Pay your bills on time:** Late payments hurt your credit history. Keep track of your due dates
3. **Pay your balance in full:** This is a good way to keep your debt under control. If you can't pay your balance in full, pay as much as you can by the due date. Try to at least make the minimum payment.
4. **Pay off your debt as fast as you can:** Being debt for a long time will cost you a lot in interest and can be hard to manage.
5. **Watch out for your credit limit:** Try to keep your balance well below your **credit limit**.

Helpful words

Credit cards and lines of credit have a maximum amount you can borrow. The total amount of money you can borrow from a lender is your **credit limit.**

Let’s talk about it

- What can you do if you feel overwhelmed?
- What kinds of help are available?

Non-profit **credit counselling** services are organizations that help people manage their debt at no cost. Find out the contact information of non-profit credit counselling services in your community.

Money tip

Call your **creditor** if you can't pay your bill. Explain your situation. Most of the time, they'll work with you to make a payment plan. This can make it easier for you to pay off your debt.

The **creditor** is the person or business that lent you money, like the bank or the credit card company.

Credit counselling can help you when your debt is too big for you to manage. This help might include calling your creditors to reduce your interest rates and late fees.

Money challenge

Set up a family meeting to talk about ways to save money and reduce your debt. When your family meets a goal, like paying off a debt, celebrate in a fun and inexpensive way.

Congratulations!

- Different ways to borrow money.
- How to calculate interest.
- How credit cards work.
- Why it’s important to manage your debt and build a good credit history.

Lifelong learning

My pledge

I pledge to work learning more about banking by:

My action plan

What do I need to do first?

Who will support me?

How will I overcome obstacles and setbacks?

Post Survey

How to learn more

“Managing debt” is an online tool from the Government of Canada to help you understand your debt and how to pay it off. Check it out at: www.canada.ca/en/financial-consumer-agency/services/debt.html

Credit Counselling Canada has a list of non-profit credit counselling agencies in communities across Canada: https://creditcounsellingcanada.ca/