Money Matters

Workbook 3
Borrowing Money

ABC LifeLiteracyCanada

Founding Sponsor
TD READY COMMITMENT

Welcome to *Money Matters!*

What will you learn?

In today's workshop, you'll 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

ABC LifeLiteracyCanada

Money Matters

Do you know ASL?

You can watch ASL videos of the information from the workbook. The playlist of ASL videos for this workbook is at:

https://tinyurl.com/mb5pyvjz

You can also find the playlist by scanning this QR code on your mobile device.

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**

Credit is when you buy now and pay later. You usually pay a fee when you use credit. The fee includes interest and often 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 to borrow money. When you get a loan or use credit, you need to pay back the amount you borrowed plus interest. The amount of interest is usually shown as a percentage of the money borrowed.

Getting in touch with your money

- [ ] I feel good about how I manage my money. I don't have any debt or I have a solid plan for paying off my debt.
- [ ] I don't worry too much about money. I could be better at managing my debt, but I usually make payments on time.
- [ ] I worry about my debt. I can't sleep and sometimes even feel anxious or stressed about it.
- [ ] None of the above apply to me. Here's my situation:

_____

_____

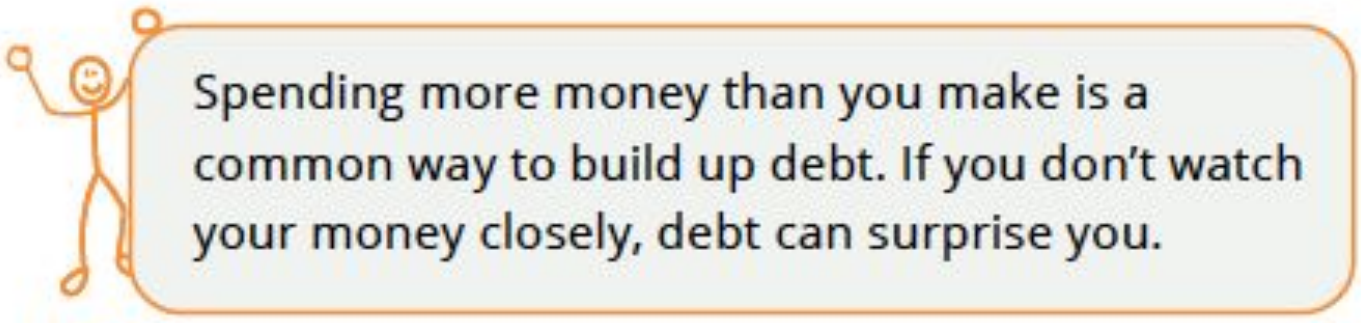
Let's talk about it

Let's think about how we manage our money

- Have you ever made a spending plan?

- What did it show?

- What do you do if you spend more money than you make?



ABC LifeLiteracyCanada

Money Matters

Meet Tenzin

Tenzin:

- Bought a big-screen TV through a “Buy Now, Pay Later” sale using his **credit card**
- Has another credit card from a department store
- Sometimes needs to get a **cash advance** on one credit card to make the **minimum payment** on his other credit
- Has managed to make all payments so far

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 a fee.

A **cash advance** is a loan that you get from a cash store, payday lender, or from your credit card.

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

Bad debt, good debt

Warning signs

1. _____

2. _____

3. _____

If you're having trouble paying for the things you need, 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.

This information is from the Financial Consumer Agency of Canada

Meet Riley

Riley:

- Gets a credit card from her bank to start building a good **credit history**
- Only uses the card to buy a few things each month
- Pays the full amount when she gets her bill
- Was glad she had the credit card when her mom got sick
- Bought a train ticket with her credit card to visit her mother

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.

Meet Tenzin and Riley

How does Riley use her credit card compared to Tenzin?

1. _____

2. _____

3. _____

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. Check it out on your bill.

What's my situation?

There are no right or wrong answers. This activity is about you and your life.

Statement	My situation		
	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	☐	☐	☐

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.

Different kinds of credit

- Have you or any of your group members used any of these kinds of credit?
- How much interest did they pay on the money they borrowed?
- What happened if they were late paying the money back?

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 a fee on top of paying back the money you borrowed.

Type of borrowing	What it is	Money notes
Payday loan	A short-term loan from a cash store	Fees are high. If you don't pay back the loan by the due date, you'll have to pay a lot of interest
Buy now, pay later	When a store sells you an item now, and you agree to pay for it by a certain due date	If you don't pay on time, you may have to pay a lot of interest. This interest usually starts from the date you got the item
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	You usually end up paying a lot more in total than if you had bought the item at the start
Pawnshop	A place where you can get a loan by leaving behind an item you own, like a watch or TV	If you don't pay the loan back by a due date, the pawnshop keeps the item

Lease	You rent an item for a period of time but don't own it	At the end of the lease, there may be extra costs, like "wear and tear" on a car
Bank credit card	A credit card from a bank or other financial institution	Interest rates and fees are different from card to card, but there are low-interest options
Retail credit card	A credit card from a store	Interest rates are often much higher than a bank credit card

Type of borrowing	What it is	Money notes
Line of credit	A pre-approved loan that lets you borrow money when you need it	Interest rates on lines of credit from a bank are often lower than on credit cards or other kinds of loans
Cash advance on a bank credit card	A cash loan from your credit card	Often, you'll pay more interest than you would on a line of credit, but less than on a payday loan
Overdraft	A way to withdraw more money than you have in your bank account	You pay interest on the amount you took out until you pay it back into your account plus the fees. An overdraft costs less than a payday loan
Secured credit card	A credit card where you make a payment before you use it	The credit limit is usually the same as the amount you pre-paid

Personal loan	A loan for you to use personally, not for a business. Also called a consumer loan	Interest rates change depending on your credit history
Mortgage	A personal loan to help you buy a home. It's often considered a "good" debt	Interest rates depend on things like your credit history and income. If you don't make payments on time, you can lose your home
Student loan	A government loan to help pay tuition and other costs. It's often considered a "good" debt	Interest rates are usually low. You start paying back the loan after you leave school

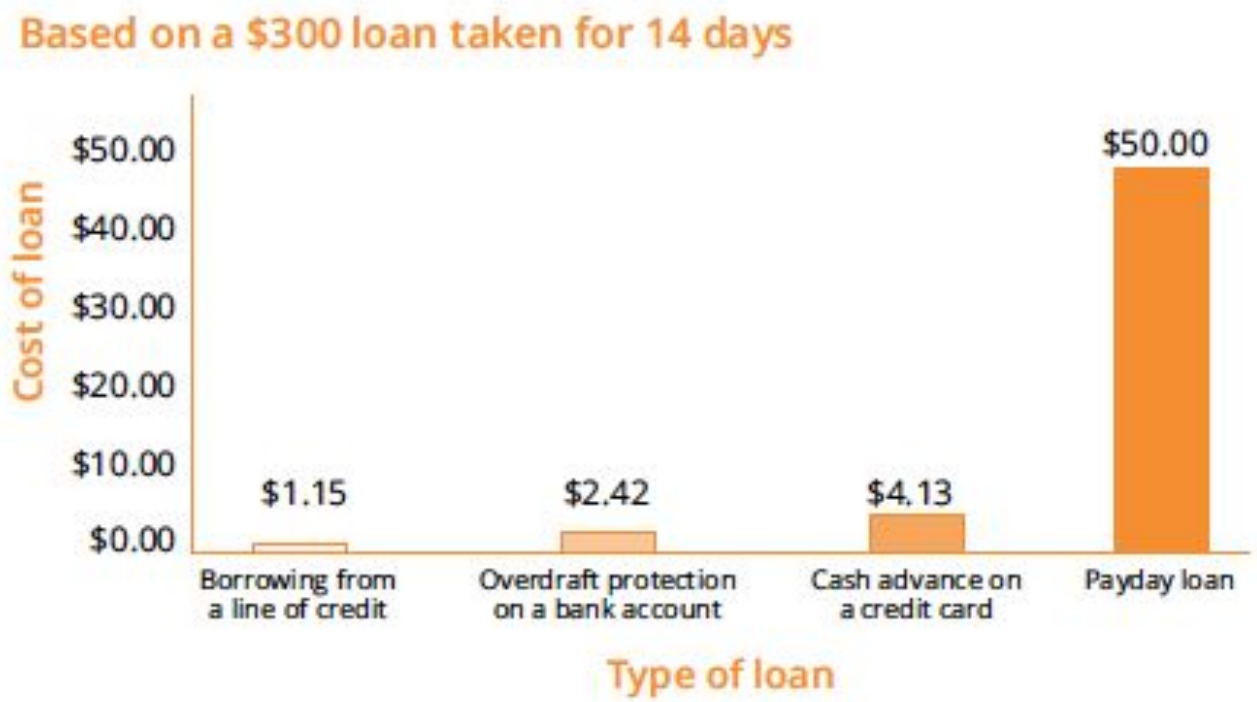
Let's talk about it

- 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?

Many stores offer interest-free deals when you buy things using the store's retail credit card. This is a type of "Buy Now, Pay Later" deal. But if you don't pay back all the money you owe by the due date, you'll be charged interest from the date you made the purchase.

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.

Let's talk about it



This information is from the Financial Consumer Agency of Canada

How does interest work?

Let's say you borrow $100.

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

APR is short for **A**nnual **P**ercentage **R**ate. It's the rate of interest charged on a loan each year.

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.

+

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**.

How does interest work?

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.

Surprise expenses

The cost of borrowing $60 for one year is:

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

Payday loan

Loan:		$ 60.00
Interest: (0.25 on your calculator)	×	25%
Total interest:		$ 15.00
+ Service fee:	+	$ 10.00
Total cost of loan:		**$ 25.00**

Line of credit

Loan:		$ 60.00
Interest: (0.05 on your calculator)	×	5%
Total interest:		$ 3.00
+ Service fee:	+	$ 0.00
Total cost of loan:		**$ 3.00**

Credit card

Loan:		$ 60.00
Interest: (0.20 on your calculator)	×	20%
Total interest:		$ 12.00
+ Service fee:	+	$ 0.00
Total cost of loan:		**$ 12.00**

The cost of borrowing is:

Payday loan:	**$25**
Line of credit:	**$3**
Credit card:	**$12**

ABC LifeLiteracyCanada

Money Matters

Money math: short-term loans

A. Payday loan

Loan:		$200.00
Interest: (0.25 on your calculator)	×	25%
Total interest:		$
+ Service fee:	+ $	10.00
Total cost of loan:		**$**

B. Line of credit

Loan:		$200.00
Interest: (0.05 on your calculator)	×	5%
Total interest:		$
+ Service fee:	+ $	0.00
Total cost of loan:		**$**

C. Credit card

Loan:		$200.00
Interest: (0.20 on your calculator)	×	20%
Total interest:		$
+ Service fee:	+ $	0.00
Total cost of loan:		**$**

The cost of borrowing is:

Payday loan:
Line of credit:
Credit card:

ABC LifeLiteracyCanada

Money Matters

Money math: interest

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.

The **balance** is the amount of money you owe the credit card company.

Money math: interest

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

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

Money math: interest

Example:

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

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

Money math: let's try it!

Which card is better for a $350 balance: the credit card with an annual fee or the card with no annual fee?

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) = $	$0	$

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) = $	$25	$

Money math: let's try it!

Which card is better for a $200 balance: the credit card with an annual fee or the card with no annual fee?

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) = $	$0	$

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) = $	$15	$

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?

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.

Let's talk about it

You have choices. When you're deciding which credit card is best for you, it helps to think about:

1. **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.

2. **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?

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

This is most important to me when choosing a credit card:

_____

Look for the information box

A signed **contract** 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.

"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 the Financial Consumer Agency of Canada.

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?

Look for the information box

Sample information box for a credit card agreement

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.

Look for the information box

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.

This table is from Credit Cards: Rights and Responsibilities *by the Financial Consumer Agency of Canada.*

Getting your money in order

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

1. **Interest rate plan**: 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.

2. **Snowball plan:** Find the smallest loan, and pay off that balance first. Then start paying off the second smallest 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

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

ABC LifeLiteracyCanada

Money Matters

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 didn't make on your statement	☐

PIN is 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?

Credit card fraud is when someone steals your credit card or personal information and uses the card to spend 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

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.

Pay your bills on time

Late payments hurt your credit history. Keep track of your due dates and manage your money so you can pay your bills on time.

Tips to build good credit history

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.

Pay off your debt as fast as you can

Being in debt for a long time will cost you a lot in interest and can be hard to manage.

Watch out for your credit limit

Try to keep your balance well below your **credit limit**.

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?

A **creditor** is a 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.

How to learn more

Did you learn anything from this workbook that might change how you use your credit card? Do you feel like you can make better borrowing decisions? What else would you like to know?

"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/

Congratulations

You've completed *the Money Matters* Borrowing Money workbook.

You learned about:

- 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

For the last activity we hope you will make a **pledge**.

A **pledge** is a serious promise to yourself or to others.

The **pledge** can be personal, or you can share it with others.

My pledge

I pledge to use my new borrowing and credit knowledge by:

Sometimes a pledge needs an action plan: a list of steps you'll take to make your pledge happen.

My action plan

What do I need to do first?

Who will support me?

How will I overcome setbacks and obstacles?

Thank you for participating in

Money Matters!

ABC LifeLiteracyCanada

Money Matters