Practical Money Skills

A guide to help you manage your money

From budgeting and saving, to investing and spending, financial decisions are about weighing your choices and making informed decisions.

Managing your money can seem confusing and overwhelming at first look, but if you take it step by step, you can actually understand personal finance better than you ever thought possible. This brochure helps you start by outlining the basics. And, as you go through the brochure, you'll find out about important information that will help you manage your money.

Through initiatives like www.practicalmoneyskills.ca and this brochure, Visa Canada is committed to helping you learn practical money skills for everyday life.

TABLE OF CONTENTS

BUDGETING

Building a budget

Guidelines

If you want to make sure that you're not spending more than you're earning, you need to make a budget. A budget is a plan for your money that maps out how much you make (your income) and how much you spend (your expenses). The chart below offers some advice on how to divide your after-tax household income wisely.

Guideline for after-tax expenses:

30%: shelter
10%: fixed expenses
10%: loan payments
10%: personal spending
10%: savings

Four-step program

Step one: add up your income

To set up a monthly budget, you need to know how much money you have available to spend every month, after you pay your taxes. This is your net household income, because it is the number that's left *after* you have paid out all your deductions to the government.

If you get paid once a month, just look on your pay stub to see your net monthly income.

If you get paid weekly, every two weeks or twice a month, you'll need to do some math to figure out your net monthly income:

- For weekly pay, multiply the weekly amount by 4.333
- For every-two-week pay, multiply the amounts by 2.167
- For twice-a-month pay, multiply the amounts by 2

Step two: estimate your expenses

Here is where you write down what you think you'll spend your money on. It's easier to remember all the places your money goes if you divide your expenses into groups. You can lump them into big groups, like "shelter" and "loans," or you can get really specific, and figure out how much you spend monthly on more particular things, like "clothes" and "transportation." Divide your expenses in whatever way is easiest for you to track. The sample categories on the next page will help organize your expenses.

Step three: figure out the difference

After you've created your budget, you need to record your actual monthly income and expenses. This will help you understand the difference between the amount you plan to spend on something, and the amount you actually spend.

You may be surprised when you first start budgeting to find gaps between what you think you spend and reality. That's why making a budget is such a good idea. It shows how you really spend your money.

Step four: track, trim and target

After you track your spending habits for a little while, you may realize that you are spending more money than you're making.
You will also see *where* you are spending too much money.

In some cases, it's not too hard to cut expenses. In others, it's very hard. For example, you have to pay your rent and electricity bill. You don't have to buy a new CD.

Once you get used to only spending as much as you have coming in, you will probably feel much more relaxed. You won't feel the pressure of dealing with bills that you don't have the money to pay for. And you might even have enough left over to treat yourself from time to time, or to save some money for the future.

Sample Expense Categories

Shelter

- Rent or mortgage payments
- Property taxes

Fixed Expenses

- Electric bill
- Gas bill
- Telephone bill
- Mobile phone bill
- Internet expenses
- Childcare expenses
- Water bill
- House/tenant and automobile insurance
- Cable bill
- Life insurance
- Car maintenance
- Grocery bills
- Transportation costs
- Other fixed expenses

Loan Payments

- Lines of credit
- Credit cards
- Car loans
- Student loans
- Other debts

Personal Spending

- Clothes
- Hair cuts and styling
- Movies, concerts, sporting events
- Restaurant meals
- Kids' extra-curricular activities
- Electronics, CD, DVD purchases
- Furniture and appliances
- Home repairs
- Hobbies
- Reading material (newspapers, books etc.)
- Gifts
- Miscellaneous (dry cleaning, corner store, or cash purchases, etc.)

Contribution to Savings

- RRSPs
- RESPs
- Emergency fund
- Vacation fund
- Bank accounts or other savings

GOALS

The planning process

Would you like to own your own home one day? Would you like to buy a car? If so, you need a plan. Here's a four-step model to help get you started.

1. Assess Needs

Your wants are things that may make your life easier or more enjoyable, but which you don't need to live. You may want an electronic gaming system, for example, but you don't need one. You do need a winter coat, and a bed. Without these things, your life would be very difficult.

So make a list of everything that would be good to have in your life, and write it down.

Next, divide the list. Go through every item, and mark it with a "W" (for want) or an "N" (for need). If there's anything you're not sure of, ask yourself how your life would be improved if you had it (and how terrible it would be if you did not). This will help tell you whether it's a "want," or a "need."

2. Set Goals

Put aside your "want" list. Now, turn your "need" list into a collection of goals. Some people like to set daily, weekly, and yearly goals for themselves. Set up your "goal list" in whatever way works best for you.

3. Make a Plan

With goals in hand, you must now begin to develop a plan for achieving them. Break each goal down into steps. If you can afford to set aside $10 a week toward purchasing a winter coat, for example, figure out how long it will take before you have enough money to buy it. Then make a calendar with an instruction to save $10 a week. Writing your plan down makes it easier to achieve.

4. Take Action

Now you have a plan. Congratulations. Print several copies, look at them often, and take action.

Get SMART

A realistic goal is SMART (in more ways than one)

Specific

Measurable

Attainable

Relevant

Time-related

Specific: Smart goals are specific enough to move a person into action.

Example: Deciding to save enough money to buy a refrigerator (as opposed to simply saying, "Save some money.")

Measurable: You need to know when you have reached your goal, or how close you are to it. Goals that aren't measurable, like "I'd just like to have more money," are much harder to achieve. What's more, there's no way to tell when you've gotten there.

Example: A refrigerator costs $600, and you have $300 already saved. You need $300 more before you can buy the refrigerator.

Attainable: The steps toward reaching your goal need to be possible.

Example: My budget must allow me to put aside enough money each week so that I can meet my goal within one year.

Relevant: The goal needs to make sense. You don't want to work toward a goal that doesn't fit your needs.

Example: You don't need to save money for 18 pairs of shoes.

Time-related: It's important to set a definite target date.

Example: The repairman says my refrigerator won't last another year. I need to get my new refrigerator in the next eight months.

BANKING SERVICES

Unless you plan on sleeping with your cash under the mattress, you need a safe place to keep it. A bank can cash your pay cheques, offer bill payment services, and ways to save or invest for the future.

Chequing accounts

Why get a chequing account?

Convenience: If you have a chequing account, you can write cheques to pay bills without having to go to a bank or post office to buy a money order. You can stay on top of regular payments by sending out post-dated cheques (cheques that are dated in the future). For example, post-dated rent cheques for rent payable the first of every month.

A chequing account also allows you to arrange regular withdrawals from your account (for things like newspaper subscriptions) with a copy of a voided cheque. A voided cheque is a blank cheque taken from your chequebook with the word "void" written across it. That way, the cheque itself can't be used to withdraw any money from your account right away, but contains the information necessary (in the numbers printed across the bottom) for the merchant to set up the required regular withdrawals with your bank.

A chequing account also comes with a bank card that lets you access your account at thousands of banking machines across Canada. Keep in mind that if you use an ATM (Automated Teller Machine) that is not affiliated with your bank, you may be charged an extra fee.

Record Keeping: A cancelled cheque (a cheque you have written that has been returned to you by your financial institution, showing that the money has been withdrawn from your account) is proof of payment. This can come in handy if you want to question a debit you see on your online banking page or monthly paper statement. It's also useful if you ever need to prove that someone you owe money to has received payment.

Saving Money: It costs around $4 a month to maintain a chequing account. Some financial institutions offer a set number of free transactions each month, such as withdrawals, transfers, or cheques. Financial institutions might even offer no-fee accounts, provided you keep a minimum balance in your account each month, and never let the money in your account drop below this level. But even with that fee, a chequing account is cheaper than constantly buying money orders ($3 to $6.50 each) to pay your bills.

Balancing your chequebook

It's important to keep track of all the activities in your account in your cheque register (the little notebook that comes with your cheques).

Here's how:

Step 1: Get a clean piece of paper and list the current balance from your bank statement.

Step 2: Add any deposits that you've recorded in your cheque register but that are not yet shown on the statement.

Step 3: Subtract any outstanding cheques, withdrawals you've made with your debit card, regular automatic payments you set up, and any withdrawals you make at a bank machine.

Step 4: Compare the result you arrive at with the balance in your cheque register.

NOTE: The balance in your cheque register should be adjusted to include: (a) deductions for service fees or other charges; (b) additions for direct deposits and interest earned.

Savings accounts

Choosing a savings account

If you want to save some money for your short term needs, a savings account is a good bet. With this type of account, money that stays untouched earns interest. Interest is the money the bank pays you for letting it use your money. The amount of interest varies, depending on the bank and type of account you choose, and interest rates in general.

There are a few different ways that banks calculate interest. For more information on how your bank calculates interest on your account, contact your bank.

Generally speaking, the higher the balance, the more interest you'll earn.

Electronic banking

Financial transactions and technology

Not surprisingly, technology has made the world of banking a lot easier. Here are some examples:

Direct deposit

With direct deposit, your pay (or government payments) can be automatically deposited into your bank account. This saves time, effort, and money.

Online banking

Online banking allows customers to check balances, pay bills, transfer money from one account to another, deposit RRSPs, draw on lines of credit, and even apply for loans on the Internet.

Automated teller machine

Automated teller machines, or ATMs, allow customers to get cash, deposit money, and do other banking without standing in line to talk to a teller. Keep in mind that you may incur additional service fees when you use a bank machine that is not your own bank's ATM.

Point-of-sale transactions

If you don't have the cash with you when you want to pay for something, you can use your debit card. Most stores and restaurants accept this as a means of payment.

SAVING

Saving money is something most of us want to do, but is also something we don't always do. Saving is easier than you think and this section will help you understand the basics of saving and what interest can do for you.

Interest calculations

Simple interest calculation

With the simple interest calculation, interest is calculated on the original amount of your deposit, year after year.

The formula is: Original dollar amount x Interest rate x Length of time (in years) = Amount earned

Example: If you had $100 in a savings account that paid 2% per year simple interest, you would earn $2 in interest by the end of the first year.

$100 x 0.02 x 1 = $2

At the end of two years, you would have earned $4. The account would continue to grow at a rate of $2 per year, despite the fact that, at the end of the first year you had $102 in the account.

Compound interest calculation

With the compound interest calculation, interest is paid on the original amount of the deposit, plus any interest earned.

The formula is: (Original dollar amount + Earned interest) x Interest rate x Length of time = Amount earned

Example: If you had $100 in a savings account that paid 2% interest compounded annually, the first year you would earn $2 in interest. The calculation the first year would look like this:

$100 x 0.02 x 1 = $2
(interest for the first year)

$100 + $2 = $102
(total amount in account at the end of the year)

With compound interest, at the end of the second year you would earn $2.04 in interest – more than the first year because the interest would be calculated on your new total of $102, and not just on your original deposit as it did in the simple interest example. By the end of the third year, you would have earned $6.12 in total interest. The calculation for the second and third years look like this:

Second year:
$102 x 0.02 x 1 = 2.04
(interest earned at the end of the second year)

Third year:
$104.04 x 0.02 x 1 = 2.08
(interest earned at the end of the third year)

$104.04 + 2.08 = 106.12
(total amount in account at the end of the third year)

The rule of 72

Sometimes, it helps to remember simple mathematical rules when you're working toward saving for a certain goal. Here is one, called "the rule of 72."

The rule of 72 helps to figure out how many years it will take to double your money. Here, you divide 72 by the rate of interest you're getting. The answer will tell you the number of years it will take you to double your original deposit, no matter how much it is.

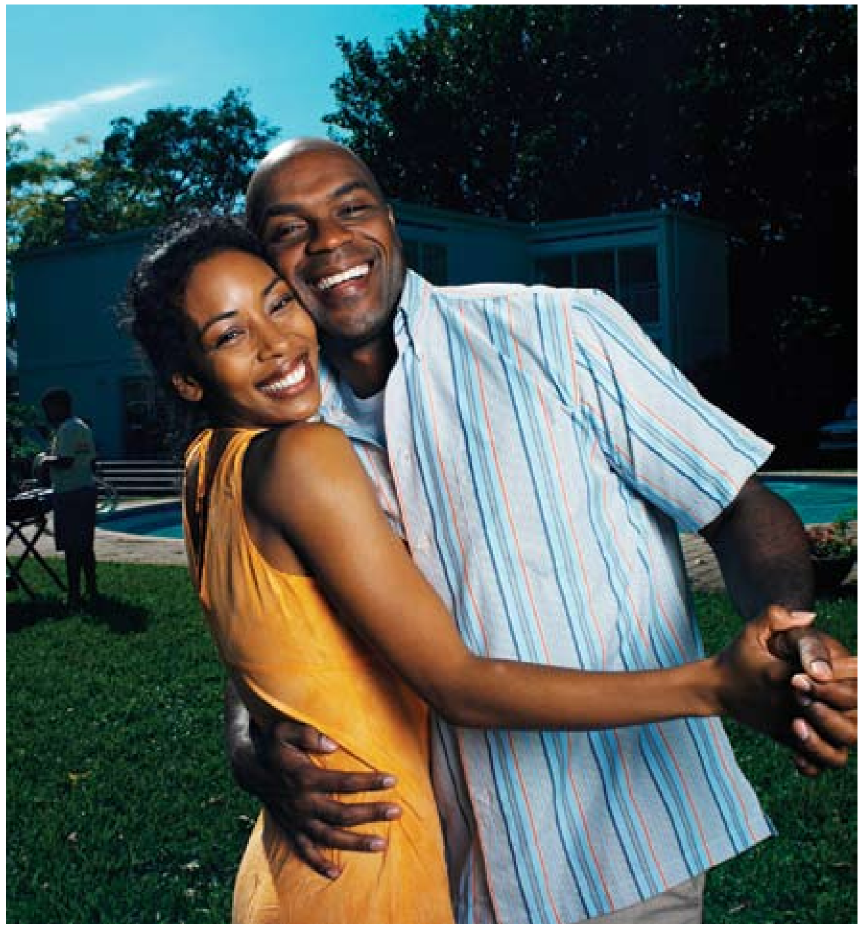
72 ÷ Interest rate = Years to double investment

For example, it will take you 28.8 years to double your money at an interest rate of 2.5% per year.

You can also use the rule of 72 to figure out what interest rate you need to double your money in a set amount of years.

72 ÷ Years to double investment = Interest rate required

For example, this calculation will tell you that you need to get an interest rate of 7.2% per year if you want to double your money in 10 years.



THE POWER OF STARTING YOUR SAVINGS EARLY

Age	Suzanne invests	Growth	Jack invests	Growth
22	1,000	1,100	0	0
23	1,000	2,310	0	0
24	1,000	3,641	0	0
25	1,000	5,105	0	0
26	1,000	6,716	0	0
27	1,000	8,487	0	0
28	1,000	10,436	0	0
29	1,000	12,579	0	0
30	0	13,837	1,000	1,100
31	0	15,221	1,000	2,310
32	0	16,743	1,000	3,641
33	0	18,418	1,000	5,105
34	0	20,259	1,000	6,716
35	0	22,285	1,000	8,487
36	0	24,514	1,000	10,436
37	0	26,965	1,000	12,579
38	0	29,662	1,000	14,937
39	0	32,628	1,000	17,531
40	0	35,891	1,000	20,384
41	0	39,480	1,000	23,523
42	0	43,428	1,000	26,975
43	0	47,771	1,000	30,772
44	0	52,548	1,000	34,950
45	0	57,802	1,000	39,545
46	0	63,583	1,000	44,599
47	0	69,941	1,000	50,159
48	0	76,935	1,000	56,275
49	0	84,628	1,000	63,002
50	0	93,091	1,000	70,403
51	0	102,400	1,000	78,543
52	0	112,640	1,000	87,497
53	0	123,904	1,000	97,347
54	0	136,295	1,000	108,182
55	0	149,924	1,000	120,100
56	0	164,917	1,000	133,210
57	0	181,409	1,000	147,631
58	0	199,549	1,000	163,494
59	0	219,504	1,000	180,943
60	0	241,455	1,000	200,138
61	0	265,600	1,000	221,252
62	0	292,160	1,000	244,477
63	0	321,376	1,000	270,024
64	0	353,514	1,000	298,127
65	0	388,865	1,000	329,039
	Value at Retirement	**$388,865**	**Value At Retirement**	**$329,039**
	Less Total Contributions	**$(8,000)**	**Less Total Contributions**	**$(35,000)**
	Net Earnings	**$380,865**	**Net Earnings**	**$294,039**

Start saving early

The chart on the previous page shows how important it is to start saving your money early.

For example, Suzanne and Jack each save $1,000 per year ($83.33 per month or $19.23 per week), and they each earn 10% on the money they save. Suzanne starts saving at age 22 and stops at age 30. Jack starts saving at age 30 and stops at age 65. You might think Jack will have more money than Suzanne when he reaches age 65. He will have saved for 35 years, and Suzanne will have only saved for eight years. But he won't. Suzanne will. That's because Suzanne started at a younger age than Jack, and the money she puts into her savings plan had a longer time to grow.

In this example, Suzanne only saved $8,000. But by age 65, her money will make $380,865 in interest. Jack, on the other hand, saved $35,000 by his 65th birthday. But he will only make $294,039 in interest on that money.

That's $86,826 less than Suzanne's, and he saved money for 27 years longer than she did. Because he didn't start as young as Suzanne did, Jack never caught up.

Savings resources

Banks, insurance companies, credit unions, caisses populaires, trust companies, brokerage firms, and mutual fund companies all offer good savings vehicles for your money. You should find out more about each of them, and what they offer by looking at their websites, sitting in on seminars they offer, or look through newsletters or brochures.

Here are some websites that can help you find answers to financial issues in general, and to banking, and caisses populaires in particular.

Bank of America:
www.bankofamerica.com

Canadian Bankers Association:
www.cba.ca

CIBC:
www.cibc.com

Citizen's Bank of Canada:
www.citizensbank.ca

Financial Consumer Agency of Canada:
www.fcac-acfc.gc.ca

Home Trust Company:
www.hometrust.ca

La Federation des caisses Desjardins du Quebec:
www.desjardins.com

Laurentian Bank of Canada:
www.laurentianbank.com

Royal Bank of Canada:
www.royalbank.com

TD Canada Trust:
www.tdcanadatrust.com

The Bank of Nova Scotia:
www.scotiabank.ca

U.S. Bank National Association ("US Bancorp.):
www.usbank.com

Vancouver City Savings Credit Union:
www.vancity.com

CREDIT

In today's world, credit is a part of everyday life. From renting a car to reserving an airline ticket or hotel room, we all use credit. Using credit wisely is important for building a solid credit history and keeping yourself out of financial trouble.

What is credit?

Types and sources of credit
Single-payment credit

With single-payment credit (offered by utility companies and some retailers), items and services are paid for in a single payment, within a given time period, after the purchase. With this type of credit, interest is usually not charged.

Installment credit

With installment credit, merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included in the payment calculation. Whoever is extending the credit (e.g. car dealerships or appliance stores) draws up a repayment plan.

Consumer loans

With a consumer loan, a lender (like a bank or a credit union) loans a consumer money for a special purpose. The consumer agrees to repay the debt in regularly scheduled payments.

Revolving credit

With revolving credit, the consumer has to repay the loan (typically to a retail store or financial institution that issues credit cards) at regular intervals. They must pay the minimum payment, but can pay as much as they wish. Interest is charged on the remaining balance.

The 3 Cs of credit

The 3 Cs of credit refer to Character, Capital and Capacity. These are the characteristics that a lender uses to make a decision about whether to extend credit to someone.

Character

The credit history contained in your credit report helps the lender determine if you are honest, and can be trusted to pay back the debt. To help the lender with this decision, the lender may ask you the following questions:

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references (names of people who will tell the lender what kind of person you are)?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital

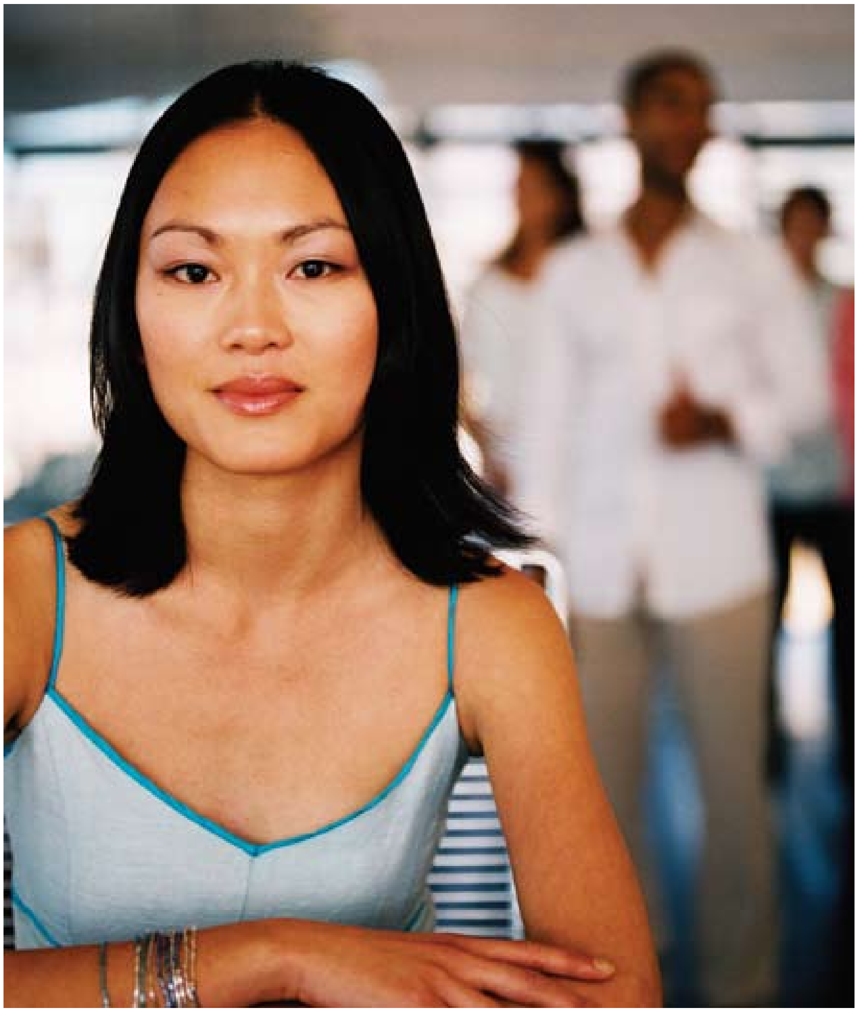
The lender will also want to know if you have any valuable assets such as real estate, a car, a savings account, or any investments. They might ask these questions:

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

Capacity

This refers to your ability to repay the debt. The lender will want to know if you are employed and if you are earning enough income to cover your use of its credit. Therefore, the lender may ask the following questions:

- Do you have a steady job? If so, what is your salary?
- How many other loan payments do you have?
- What are your current living expenses?
- What are your current debts?
- How many dependents (other people, like children, who rely upon your income) do you have?



What credit reports contain

If you have ever taken out a bank loan, had a mortgage or used a credit card, you have a credit history. This information is available in what is called a "credit report" from a credit bureau. There are three main credit bureaus in Canada: Equifax Canada Inc., Northern Credit Bureaus Inc., and TransUnion Canada.

A credit report contains basic identifying information about you, such as your name and address. It may also contain your Social Insurance Number and the following information:

- Where you live
- Your employment history
- Your current debts
- Whether you pay your bills on time
- Whether a financial institution has ever said no to your request for a loan
- Your history of bankruptcy, if any

Institutions that offer credit, like financial institutions and retailers, can look at your credit report to help decide whether to approve your application for credit. You can also view your credit report at the credit bureau to ensure the information it contains is correct. It is good practice to review your credit report every year to make sure all the information in it is accurate.

How is credit gauged?

A credit report is a report of how well you pay back your bills. It shows whether you pay on time, and in full.

Each credit bureau collects information about what accounts you have open, their balances and credit limits, and whether you have ever had trouble paying them. It will also show whether you have ever had any legal or tax problems with your finances.

How do I read a credit report?

Each of the three main credit bureaus' credit reports looks a little bit different. Your credit report will have many codes on it. You will get a glossary with the report defining such coded terms as "DLA" (Date Last Activity) and "OPD" (Orderly Payment of Debt). It's important to study it and figure out exactly what the report is saying.

It may surprise you to see how many companies have been checking your credit information. But remember: every time you apply for credit, it goes on your record. So when you shop around for a car, or apply for a department-store card, the dealership and retailer can inquire about you, and that goes on your record. Sometimes a creditor will turn down a person because it looks like they have been applying for a lot of credit and have been turned down.

Reviewing your credit report every year will also help you keep an eye out for any inquiries or accounts on your report that you don't recognize. Inquiries or new accounts that aren't yours may be a signal that someone else is using your credit information.

CREDIT CARDS

At some point in our lives, most of us borrow money. Even if you don't have a mortgage or a car loan, you are still borrowing money if you use a credit card.

In fact, credit cards are one of the most common forms of borrowing money. For example, with credit cards, consumers can make purchases and can delay having to pay these purchases off. Because it's a convenience, they pay interest to the financial institution that issued the card if the balance is not fully paid off each month.

Credit cards 101

Credit cards have advantages, and when used wisely, can be an indispensable financial management tool.

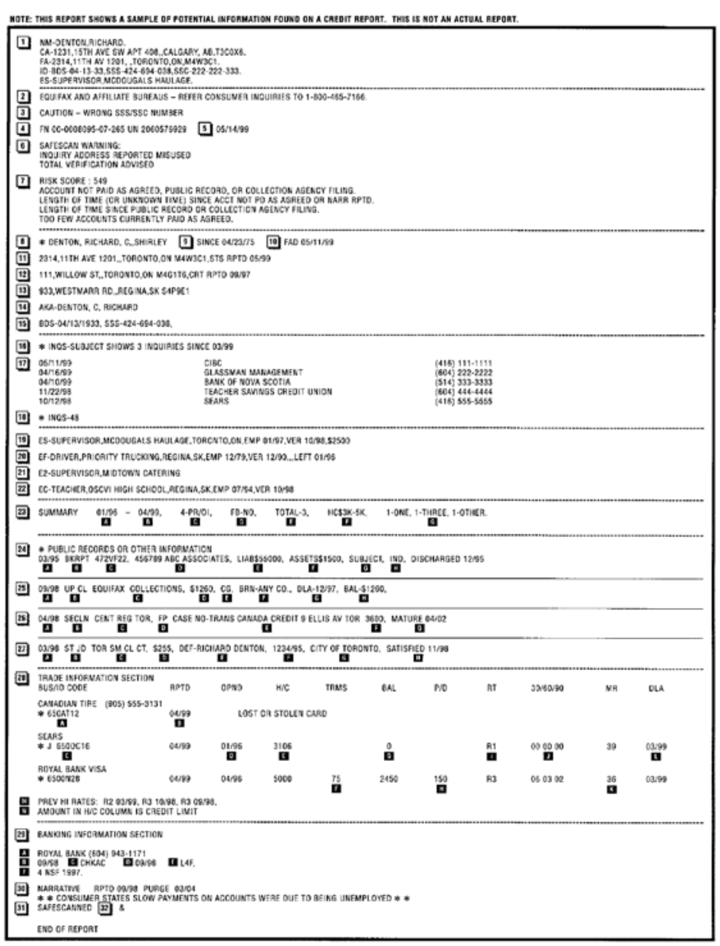
Owning a credit card comes with many advantages. Credit cards give you the ability to buy needed items immediately, and they also allow you to get an "interest-free" loan as long as you pay your balance in full by the due date.

Credit cards also act as a safety net in case you need emergency funds, they are more convenient than writing cheques, offer reward points which you can redeem for products or services, and allow you to buy products or services over the Internet or phone.

Credit cards also make travelling easier by providing you with local currency, and because they are accepted almost everywhere you go around the world. And finally, credit cards offer you an extra level of protection through zero liability policies. While credit cards offer convenience and reliability, there are things one should keep in mind when using a credit card.

While credit cards offer interest-free loans to those who pay off their entire balance every month, those who do not will have to incur some interest charges. And, if not managed properly, credit card use can sometimes get out of hand, so make sure that you use your credit wisely. Also, keep in mind that often, interest on cash advances made on credit cards are counted from the day the cash advance is taken.

An example of a credit report.



NOTE: THIS REPORT SHOWS A SAMPLE OF POTENTIAL INFORMATION FOUND ON A CREDIT REPORT. THIS IS NOT AN ACTUAL REPORT.

1 NM-DENTON,RICHARD.
CA-1231,15TH AVE SW APT 408,,CALGARY, AB,T3C0X6.
FA-2314,11TH AV 1201, ,TORONTO,ON,M4W3C1.
ID-BDS-04-13-33,SSS-424-694-038,SSC-222-222-333.
ES-SUPERVISOR,MCDOUGALS HAULAGE.

2 EQUIFAX AND AFFILIATE BUREAUS – REFER CONSUMER INQUIRIES TO 1-800-465-7166.

3 CAUTION – WRONG SSS/SSC NUMBER

4 FN 00-0008095-07-265 UN 2060575929 5 05/14/99

6 SAFESCAN WARNING:
INQUIRY ADDRESS REPORTED MISUSED
TOTAL VERIFICATION ADVISED

7 RISK SCORE : 549
ACCOUNT NOT PAID AS AGREED, PUBLIC RECORD, OR COLLECTION AGENCY FILING.
LENGTH OF TIME (OR UNKNOWN TIME) SINCE ACCT NOT PD AS AGREED OR NARR RPTD.
LENGTH OF TIME SINCE PUBLIC RECORD OR COLLECTION AGENCY FILING.
TOO FEW ACCOUNTS CURRENTLY PAID AS AGREED.

8 * DENTON, RICHARD, C,,SHIRLEY 9 SINCE 04/23/75 10 FAD 05/11/99

11 2314,11TH AVE 1201,,TORONTO,ON M4W3C1,STS RPTD 05/99

12 111,WILLOW ST,,TORONTO,ON M4G1T6,CRT RPTD 09/97

13 933,WESTMARR RD.,REGINA,SK S4P9E1

14 AKA-DENTON, C, RICHARD

15 BDS-04/13/1933, SSS-424-694-038,

16 * INQS-SUBJECT SHOWS 3 INQUIRIES SINCE 03/99

17

06/11/99	CIBC	(416) 111-1111
04/16/99	GLASSMAN MANAGEMENT	(604) 222-2222
04/10/99	BANK OF NOVA SCOTIA	(514) 333-3333
11/22/98	TEACHER SAVINGS CREDIT UNION	(604) 444-4444
10/12/98	SEARS	(416) 555-5555

18 * INQS-48

19 ES-SUPERVISOR,MCDOUGALS HAULAGE,TORONTO,ON,EMP 01/97,VER 10/98,$2500

20 EF-DRIVER,PRIORITY TRUCKING,REGINA,SK,EMP 12/79,VER 12/90,,LEFT 01/96

21 E2-SUPERVISOR,MIDTOWN CATERING

22 EC-TEACHER,OSCVI HIGH SCHOOL,REGINA,SK,EMP 07/94,VER 10/98

23 SUMMARY 01/96 – 04/99, 4-PR/OI, FB-NO, TOTAL-3, HC$3K-5K, 1-ONE, 1-THREE, 1-OTHER.

24 * PUBLIC RECORDS OR OTHER INFORMATION
03/95 BKRPT 472VF22, 456789 ABC ASSOCIATES, LIAB$55000, ASSETS$1500, SUBJECT, IND, DISCHARGED 12/95

25 09/98 UP CL EQUIFAX COLLECTIONS, $1260, CG, BRN-ANY CO., DLA-12/97, BAL-$1260,

26 04/98 SECLN CENT REG TOR, FP CASE NO-TRANS CANADA CREDIT 9 ELLIS AV TOR 3600, MATURE 04/02

27 03/98 ST JD TOR SM CL CT, $255, DEF-RICHARD DENTON, 1234/95, CITY OF TORONTO, SATISFIED 11/98

28 TRADE INFORMATION SECTION

BUS/ID CODE	RPTD	OPND	H/C	TRMS	BAL	P/D	RT	30/60/90	MR	DLA
CANADIAN TIRE (905) 555-3131 * 650AT12	04/99	LOST OR STOLEN CARD								
SEARS * J 6500C16	04/99	01/96	3106		0		R1	00 00 00	39	03/99
ROYAL BANK VISA * 6500N28	04/99	04/96	5000	75	2450	150	R3	06 03 02	36	03/99

PREV HI RATES: R2 03/99, R3 10/98, R3 09/98,
AMOUNT IN H/C COLUMN IS CREDIT LIMIT

29 BANKING INFORMATION SECTION

ROYAL BANK (604) 943-1171
09/68 CHKAC 09/96 L4F,
4 NSF 1997.

30 NARRATIVE RPTD 09/98 PURGE 03/04
* * CONSUMER STATES SLOW PAYMENTS ON ACCOUNTS WERE DUE TO BEING UNEMPLOYED * *

31 SAFESCANNED 32 &

END OF REPORT

Card options

Credit cards offer consumers the option to pay for goods and services now or later. If consumers work hard to pay down their entire balance by the due date, consumers can enjoy this service without paying interest charges.

Canadians have a lot of choices when it comes to selecting a credit card. More than 600 institutions (mostly banks, credit unions, and caisses populaires) issue credit cards and offer a wide variety of benefits, interest rates and fees. In 2005, there were more than 56 million bank-issued credit cards in use across Canada.

Types of cards

Broadly speaking, there are three types of credit cards. They are: bank issued cards (such as *Visa*® and MasterCard), retail cards (such as the Bay and Sears) and travel/entertainment cards, also called charge cards.

Bank cards

Consumers can pick from a wide variety of bank cards with varying rates of interest and annual fees. Some have higher annual fees than others. Some have no annual fee at all. Some have reward programs, in which you earn points for every purchase you make on your card. You can redeem these points for goods and services, like airplane tickets or movie gift certificates.

Bank credit cards also come with different interest rates and fees. Credit cards issued by Canadian financial institutions charge interest rates from about 9% to 20%, and annual fees of up to $165.

Generally speaking, reward cards may have higher rates of interest, but they offer the added feature of allowing consumers to receive discounts and rewards.

Retail cards

These types of cards are usually only accepted at the department store or retailer that issued them. They usually charge higher interest than bank-issued cards — from 24% to 28.8%. Retail cards don't usually charge an annual fee. The benefit of this type of card is that they sometimes offer discounts or reward programs only available to the holders of these cards.

Travel/entertainment (charge) cards

These cards generally offer unlimited credit limits. They often have reward programs. But charge cards often have higher annual fees than bank-issued cards. Cardholders must pay their entire balance off each month and are often charged a high interest rate for late payments compared to other types of cards.

The Financial Consumer Agency of Canada provides a comprehensive overview of the credit card options available to Canadians through its "Credit Cards and You" resource. For more information, visit www.fcac.gc.ca.

Choosing a card

Is it a convenience?

Many consumers choose to pay their credit cards in full each month. They use credit cards as a convenient way to keep track of what they're spending their money on. They also use them because it's easier to pay with a credit card than to worry about having enough cash on hand. For these people, the card's interest rate is probably not too important. More important is probably the size of the annual fee and the card's special features.

Do you plan ahead?

Some credit cards offer a low rate for the first few months. These can be a good choice for people who plan to make a large purchase and pay for it quickly. But you must stick to this plan, because interest rates on these cards are usually only low for a set amount of time.

Do you plan to maintain a balance?

Some credit card users don't pay off their credit card balances every month. If you plan to keep a balance, it's important to shop for the card with the lowest interest rate. This way, you will cut down on the amount of interest you have to pay every month. But if your average balance is less than $1,000, watch out for the annual fee.

Sometimes, a credit card's annual fee could cost more than what you would have paid in interest on a higher-interest card. If you plan to keep your balance small, look for a card that has no annual fee with the lowest interest rate you can find.

® Registered trademarks of Visa International Service Association; Visa Canada Association is a licensed user.

Credit costs

When you use your credit card you are, in effect, taking out a loan for your purchases from your financial institution. In return for this, the bank may charge you interest or other fees such as an annual fee.

If you always pay the amount owing on your credit card by the payment due date, you never have to pay interest. In Canada, approximately 71% of all bank-issued credit card holders pay off their balance all or most of the time.

If you don't pay the amount owing on your credit card in full by the due date, the interest you're charged will depend on whether the balance on your card is a new purchase, something you bought in the past and never paid off, a cash advance, or a balance transfer.

New purchases

New purchases are items that appear on your monthly statement for the first time. In some cases, these purchases might not have any interest charged on them for a period. Ask your bank about the "interest-free period" that usually comes with a credit card.

Previous purchases

These are purchases that have appeared on a past statement, but that you have yet to pay off. Interest is charged on these from the date you made these purchases (or from the date they first appear on your statement) until they're paid for in full.

Cash advances and balance transfers

A cash advance is actual money received from your credit card account through your bank or at an ATM. A balance transfer is taking funds from the credit line of one credit card to pay off the balance of another, usually higher interest, credit card. Often, balance transfer offers with lower interest rates are only available for a short period of time.

In the world of credit cards, cash advances and balance transfers are treated like loans, not like purchases. You are charged interest from the date you take the cash advance or make the balance transfer.

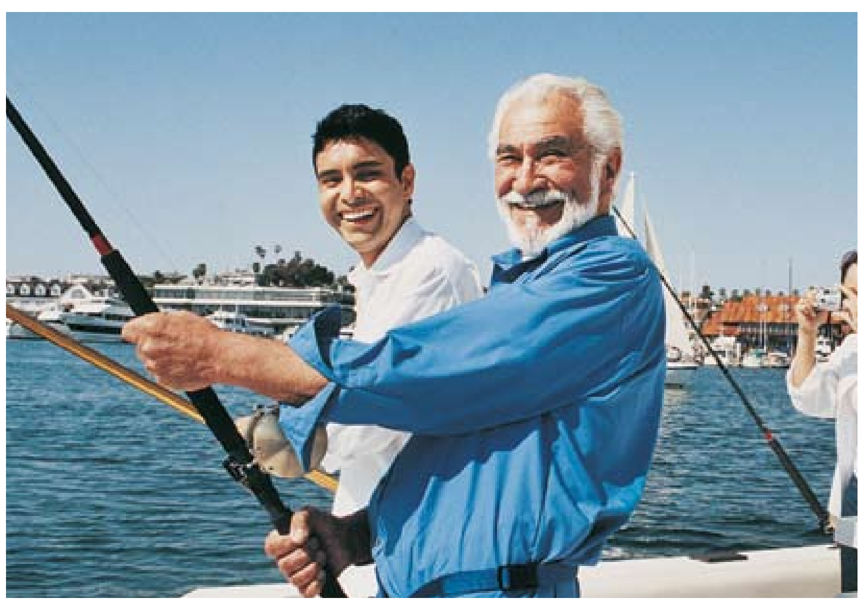
Interest calculation method

When the financial institution that issued your card calculates the interest you owe, it normally does it in one of two ways:

- the "average daily balance method"
- the "daily balance method"

Average daily balance method

The average daily balance on your credit card is the balance you carried during the billing period (from your last bill until the current one), divided by the number of days in the billing period. To calculate the interest charged for the month, financial institutions typically multiply the average daily balance by the daily interest rate. Then they multiply the result by the number of days in the billing period.



Daily balance method

This interest-calculation method calculates interest owed at the end of each day of the billing period. This is different from the average daily balance method, where the calculation is done at the end of the month only. To calculate the daily interest charge, banks multiply the daily balance in your account by the daily interest rate and then add up each day's calculation for a monthly total.

Other fees

Some card issuers charge an annual fee for the card. This is the amount you must pay when you get the card, and each year it is renewed. Some banks also charge fees for being late with a payment, for taking out a cash advance, or for spending more than your credit limit. Read your cardholder agreement carefully so that you know all of its terms and conditions.

The power of $50 a month

Even though you do not always have to pay off the entire balance on your credit card every month, you do need to pay something. This is called the "minimum payment." Sometimes people don't realize how long it will take them to pay off their debt if they only pay this every month. If you can afford to pay a little bit more than the minimum payment every month — say, $50 extra — it can make a big difference to how quickly you can pay off your whole debt.

An example of what $50 can do

For example, you have a credit card with a $3,000 balance, and have an annual interest rate of 18%. You buy nothing more from when you receive your last statement, and only pay the 2% minimum monthly payment of $60 per month. At this rate, it will take you eight years to clear your bill, and you will have paid $5,780 (including all the interest) in total. So paying only the minimum payment every month could mean paying almost twice the original debt.

BUT if you can afford to add just $50 more a month to your minimum payment, it will make a big difference. Paying $110 a month, instead of the $60 minimum, will pay off that debt in less than half the time. In just three years, your $3,000 balance will be gone. AND you will have saved yourself $1,800 in interest payments.

Just $50 a month, as it turns out, can be quite a powerful thing. Imagine what you could do with $100 more per month!

RESOURCES

Some additional credit resources to consider:

Canadian Bankers Association:
www.cba.ca

Canadian Business Magazine Online:
www.canadianbusiness.com

CanLearn Interactive:
www.canlearn.ca

Credit Card Cost Calculators:
www.strategis.gc.ca

Credit Counselling:
www.creditcanada.com

Credit Reports Information:
www.equifax.ca

MoneySense Magazine Online:
www.moneysense.ca/index.html

Quicken Personal Finance:
www.quicken.ca

"There's Something About Money":
www.yourmoney.cba.ca

Practical Money Skills:
www.practicalmoneyskills.ca

Equifax Canada:
www.equifax.ca

TransUnion Canada:
www.tuc.ca

Northern Credit Bureaus Inc.:
www.creditbureau.ca

DEBT

Debt Load

What is debt load?

Debt load is a term that is used to describe how much debt a person has. It is often used to understand if you are carrying a "safe" or reasonable amount of debt. Creditors look at how much debt you have compared to how much income you have. This is called a debt/income ratio. The debt/income ratio is calculated monthly. It shows creditors how good, or bad, your financial health is.

You can figure out this ratio by adding up all of your monthly payments except for those that have to do with housing, utilities or taxes. This is your monthly debt. Next, divide your total gross (before any deductions are made) annual income by 12 to get your gross monthly income. Then divide your monthly debt by your gross monthly income. This is your monthly non housing debt/income ratio. It is usually expressed as a percentage, so move the decimal point two places to the right.

Rule of thumb

If your non-housing debt is 10% or less, you're in great financial shape. If your non-housing debt is between 10% and 20%, then you'll probably be able to get credit. But the closer you get to 20%, the closer you get to the edge of a reasonable debt load.

As for the housing debt that's been left out of your calculations, there are different methods for deciding what is reasonable. One idea says real-estate debt should be two to three times your annual income. If the annual household income is $70,000, then, a mortgage grantor might loan up to $210,000.

But just because a lender may be prepared to give you a certain amount of credit doesn't mean you should accept it. You need to really think about your ability to pay.

The 28/36 rule

The 28/36 rule is another tool that mortgage lenders use to figure out how much to lend you. This rule says that the amount you pay out every month for a mortgage should not be more than 28% of your gross monthly income. And the total amount you pay toward debts — including your mortgage payment — every month should not be more than 36% of your gross monthly income.

What are you worth?

Assets

Assets are things that you own. Even if you still owe money on them, they are assets.

These can be things like your car, house, entertainment system, patio furniture, and camping gear. Your list of assets also includes the contents of your bank accounts, cash in your wallet, and investments.

To figure out your total assets, you have to know how much everything on your list is worth. Consider what you could expect to sell something for — and be honest with your guesses.

- Gross monthly income: **$2,000**
- Monthly debt (credit card payments, gasoline bills, and car payments): **$500**

To calculate your debt/income ratio, divide your monthly debt by your gross monthly income: **$500/$2,000 = 0.25**

Your debt/income ratio is 25%

Liabilities

Liabilities are what you owe, including finance charges. For example, your liability is not the cost of your car, but the total amount of the car loan to be repaid — including interest. You can figure this out by multiplying the payment amount by the number of payments left to pay off the loan.

Ideally, your list of assets will be worth more than your list of liabilities. If it isn't, remember that this is a snapshot in time. Everything — your assets and liabilities — is always changing.

Borrowing

Borrowing strategies

When you think about borrowing money, there are several things to consider. You should be able to:

- Identify different sources and institutions that lend money
- Understand the descriptions of the available loans
- Know how to calculate the cost of credit
- Figure out your own debt limit

Where can you borrow?

Most consumer credit comes from: banks, trust companies, caisses populaires, credit unions, and finance companies. In addition, many people borrow from relatives or other individuals. Wherever you borrow from, be sure to get a signed contract, and *READ THE FINE PRINT*.

Warning signs

It's hard to admit when you're having a problem with debt. It can feel uncomfortable to admit that you didn't plan your spending well. Here are some signs that might indicate that you're headed for trouble:

- Next month's bills arrive before you've paid the ones from last month
- You don't know how much you owe
- You get a new loan to pay old loans
- You only pay the minimum amount due each month
- You spend more than 20% of your net income (after paying rent or mortgage) on your debts
- You're using your savings to pay for day-today expenses
- There are more bills than you thought
- You know what past-due notices look like
- You get an overdue balance on a credit card statement
- You avoid opening letters
- You rarely keep a running balance in your chequebook

Getting out of debt

Reducing your debt load

There are two great ways to change your debt load and debt/income ratio: cut spending and bring in more money.

Cutting spending can be the fastest way to reduce debt load, unless additional work and income are readily available. Think of it as surgery for your money management. But as you heal with better financial health, you'll probably also notice that your attitude, relations with others, emotions, and sense of humour improve too.

You don't have to keep adding to your debt load by continuing to buy stuff. Remember, you may have found a terrific bargain on a stereo, but if you don't pay it off for three years, the money you "saved" won't matter.

Avoid impulse purchases. These are the things you pick up at the cash register, that you had no intention of buying when you entered the store. You'll be surprised at what a difference this can make.

Learn to cook or take your lunch to work. Compare the difference between the expense of lunch at a restaurant for a week and a week of lunches brought from home. The difference may surprise you. Just one of these changes will give you a great start to improving your financial life. Think about ways to bring in additional money: either a part-time job or a better paying primary job.

Talking to bill collectors

Talk sooner than later

Don't wait for a bill collector to call you. When you're in financial trouble, it is very important to talk to your creditors as soon as possible. Why? Because your creditors might be charging you more in the meantime. You'll also be taken more seriously by addressing your financial difficulties immediately rather than ignoring them.

How to talk to collectors

The bill collector's job is to ask you to pay everything you owe as soon as possible. With that in mind, follow these tips:

- Don't lose your temper
- If it's a bad time, get the collector's number, make an appointment and call back
- Be prepared with the details of how much you owe
- Keep your worksheet information by the phone so you can talk intelligently
- Be ready to suggest a plan for dealing with your debt
- Listen to the suggestions of the bill collector
- If you are having trouble with one bill collector, ask for another

If you don't owe the money:

Tell the collector you are "disputing the debt." Write to the collector and send a copy to the original creditor and explain why you're disputing the debt as soon as possible. Include your name, the account number, the amount owed, and proof of your claim.

If you owe some of the money:

- Tell the collector that you owe some of the money and are "disputing" a portion of the debt
- Pay what you owe immediately, or talk to the collector about how you might pay off the balance
- Write to the collector and explain why you don't owe the disputed amount
- Keep a copy of the letter for your records
- Include your name, account number, and the amount owed
- Do NOT enclose the letter with your payment. Send the letter separately to the creditor's customer-service department

If you have already paid the amount they say you owe:

Offer to send proof of payment. Send a copy of the front and back sides of your cancelled cheque or a copy of a receipt for the money order. Do NOT send your originals.

Your rights

Debt does not give your creditors license to pester you. They must behave according to certain rules.

Debt collectors are required to:

- Inform you, in writing, of the amount of your debt and the name of the creditor
- Give you information about your right to dispute the debt
- Give you written proof of the debt if you dispute it

A debt collector may not:

- Contact you between 10 p.m. and 8 a.m.
- Tell anyone (except your lawyer) what you owe
- Threaten legal action, loss of employment, or loss

of community ranking

- Make any more than two telephone contacts (including leaving messages on answering machines or with a third party) in a single day
- Suggest that you borrow money from some other source to pay the debt
- Engage in any kind of unfair practice, such as trying to collect more than you owe. If these rules are not being followed, file a complaint with Human Resources and Skills Development Canada (*www.hrsdc.gc.ca*).

Reasons bills go unpaid

- Loss of income: 48%
- Unemployment
- Illness
- Other (divorce, death)
- Overextension (or spending beyond your means): 25%
- Poor money management
- Emergencies
- Materialism
- Need for instant gratification
- Defective goods and services: 20%
- Fraudulent use of credit: 4%
- Other: 3%

Credit counselling

Every year, thousands of Canadians get into financial trouble. But help is available.

There are many non-profit, charitable credit counselling services throughout the country that can help you work through your debt problem. Most offer free first-time consultations. After the first meeting, they charge a small fee based on what you can afford. You may have to file for bankruptcy. But you may be able to get out of debt another way. Credit counsellors can show you other options. And a credit counsellor will talk to your creditors for you about having your payments reduced or working out a repayment plan you can afford. Credit-counselling services also offer workshops that can help clients educate themselves so they don't have financial trouble again.

Resources

There are a number of credit counselling agencies that can provide useful information on how to handle your financial problems. Here's a list of some:

Credit Counselling Society of British Columbia

330 – 435 Columbia St.
New Westminster, BC V3L 5N8
1.888.527.8999, 604.527.8999

Credit Counselling Service of Alberta

Sunrise Square
Suite 225, 602 – 11th Ave. SW
Calgary, AB T2R 1J8
1.888.294.0076, 403.265.2201

Credit Counselling Services of Atlantic Canada Inc. (Saint John office)

Harbour Building
703 – 133 Prince William St.
Saint John, NB E2L 2B6
1.800.753.2227, 506.652.1613

The Office of the Rentalsman, Province Mediation Board, Debt Management, Saskatchewan Department of Justice

2151 Scarth St., Suite 12
Regina, SK S4N 3V7
1.888.215.2222, 306.787.5387

Credit Counselling Services of Atlantic Canada Inc. (Halifax office)

6080 Young St., Suite 509
Halifax, NS B3K 5L2
902.423.3236

Manitoba Community Financial Counselling Services

Room 203 – 290 Vaughn St.
Winnipeg, MB R3B 2N8
1.888.573.2383, 204.989.1900

Credit Counselling Services of PEI

166 Fitzroy St., Charlottetown, PEI C1A 1S1
1.866.892.2441

The Ontario Association of Credit Counselling Agencies

PO Box 189
Grimsby, Ont. L3M 4G5
1.888.7.IN.DEBT, 905.945.5644

Yukon Territory Consumer Services Department of Justice

2130 Second Ave., Box 2703
Whitehorse, YK Y1A 2C6
867.667.3033

Personal Credit Counselling Service of Newfoundland and Labrador

22 Queen's Rd.
St. John's, NF A1C 2A5
709.753.5812

Human Resources and Skills Development Canada
HRSDC Communications Branch

140 Promenade du Portage
Place du Portage, Phase IV, 12th Floor
Gatineau, Qué. K1A 0J9
819.994.5559

Equifax Canada Inc.
Consumer Relations Department

Box 190 Jean Talon Station
Montreal, Que. H1S 2Z2
1.800.465.7166

TransUnion Canada

P.O. Box 338, LCD 1
Hamilton, Ont. L8L 7W2
1.866.525.0262, 905.525.0262

Northern Credit Bureaus Inc.

www.creditbureau.ca
Fax (Toll Free): 1.800.646.5876

Visa created this resource to help Canadians gain a better understanding of how best to manage their financial life. Practical Money Skills is a general resource, and we hope you gain some essential information about important aspects of managing your money. For more information and tools to help you develop Practical Money Skills, visit www.practicalmoneyskills.ca.