



There was a time when a fool and his money were soon parted, but now it happens to everybody.



Adlai E. Stevenson

Overview

“Buy now, pay later,” “Will that be cash or charge?” “Put that on my card.” It seems so easy. Credit can be a bit like an addiction, unless you’re in control. Almost without thinking, many people use credit and before long they’re hooked. At some point in their lives, most people need credit. Credit is the privilege of using someone else’s money for a period of time. Credit and debt are useful financial tools, and, like any tools, you can have better control if you take the time to find out how to use them to your advantage.

Goal

To analyze the role and importance of credit in personal finance.

Time Frame

Three 75-minute periods

Lesson 03.03.01

What is credit?

Lesson 03.03.02

Rights, responsibilities and debt load

Lesson 03.03.03

Building a credit history

End-of-unit quiz and answer sheet

End-of-unit summative test and answer sheet

Each lesson includes black-line print masters for overheads and activities.



Lesson 01
What is credit?

.01

Overview

In today's world, using credit has been integrated into everyday life. From renting a car to reserving an airline ticket or hotel room, credit cards have become a necessary convenience. However, using credit wisely is critical to building a solid credit history and maintaining fiscal fitness. While most students have a general idea about the advantages and disadvantages of credit, this lesson provides an opportunity to discuss these issues in more detail.

"How does a person establish credit?" Young people and others commonly ask this question. The credit-worthiness factors of character, capital, and capacity are covered in this lesson to assist students with understanding how to start and maintain a credit record.

Once a person decides to use credit, an awareness of the types of credit is needed. Single-payment credit, instalment credit, and revolving credit are discussed. Finally, students will start to understand how much credit might be appropriate for their situation.

Goal

Provide an awareness and understanding of what credit is (the privilege of using someone else's money for a period of time), and realize that credit can be good or bad.

Objectives

Understand some of the reasons for getting credit. Identify some of the advantages and disadvantages of using credit.

Explain why banks issue credit.

Understand credit worthiness.

Identify and understand the three principal types of consumer credit.

Timeline

Student Activity A	10 minutes
Discussion Activity A	10 minutes
Discussion Overhead A	5 minutes
Discussion Overhead B	10 minutes
Explain Overhead C	10 minutes
Note taking	20 minutes
Supplemental activity	10 minutes

Instructions

Student activity

Before you cover any content distribute the test Activity A, Should they use credit?. Give students 10 minutes to complete the test.

Classroom discussion

Discuss their answers to Activity A as a class.

Reinforce facts and concepts of credit.

Ask the students their opinion on consumer credit. Is it a good thing or a bad thing? Why?

Consumer credit is used to buy homes, cars, computers, appliances, iPods, restaurant meals, vacations, concert tickets, investments, to pay off other debts, etc. Do you think all of the above are good uses for consumer credit? Why? Why not?

Ask the students what they think the advantages and disadvantages of consumer credit are. Use Overhead A Advantages and disadvantages of using credit and determine how many the students were able to identify. Ask the students, "Before buying anything on credit, what questions should you ask yourself?"

Is this an impulse purchase?

Should I comparison shop?

Can I save if I pay cash?

How much interest will I pay?

Can I afford the monthly payment?

Is this a wise use of credit?

Ask the students why banks issue credit and credit cards.

Ask if the class would lend you \$20 to go out for lunch today. Why? Why not?

Ask the students if they were going to lend money to someone, who would they choose and why. Use Overhead B The three Cs to demonstrate the criteria

businesses use to determine credit worthiness. Ask students to take a few minutes and write down how they meet the three Cs of credit. Listen to a few answers and discuss.

Using Overhead C, Types and sources of credit describe the four principal types of consumer credit.

Note taking

Students can take notes from overheads A and B or teacher can prepare handouts.

Teacher Notes

Preparation of required materials, prior to lesson (overheads & activity pages)

Review suggested questions in lesson.

Familiarize yourself with the web resources in the supplemental activity.

Required Materials

Overhead A, Advantages and disadvantages of using credit

Overhead B, The three C's

Overhead C, Types and sources of credit

Activity A, Should they use credit? (and answer sheet)

Assessment and Evaluation

Activities can be used as a formative or summative assessment.

Notebook check

Supplemental Activities:

Go to www.whatsmyscore.org

Select: Check out some of our Best Entries—See The Winners

Select: Get up to speed with this short, interactive tutorial that will start you on your way to a solid credit history.

Select: Credit terms

Select: How to build solid credit

Select: How to read and heed the warning signs of bad debt

Additional Web Resources

Canadian Bankers Association

www.cba.ca

CanLearn (Government of Canada)

www.canlearn.ca

Money Sense

www.moneysense.ca

Your Money

www.yourmoney.cba.ca

Visa

www.visa.com

BMO Financial Group

www.bmo.com



activity A

Should they use credit?

03.03.01

name: _____

date: _____

Directions

For each of the following situations, circle YES, NO, or DEPENDS to indicate your opinion related to this person using credit. Also, give reasons for your response.

Answers may vary.

1. Gina, age 18, plans to buy a car on credit so that she is able to drive to school.

YES

NO

DEPENDS

2. Fran and Simon recently took out a loan for a new roof.

YES

NO

DEPENDS

3. Pavel, age 20, recently used his credit card to pay for textbooks for his new semester of classes.

YES

NO

DEPENDS

4. Marcia, age 28, charges all her groceries on her credit card.

YES

NO

DEPENDS

5. Sandy and Carla, age 24 and 27, are planning on buying a boat on credit for use during summers. Carla will be the main signer for the loan, with Sandy being the co-signer.

YES

NO

DEPENDS



activity A

Activity A

Should they use credit? (answers)

03.03.01

name: _____

date: _____

Directions

For each of the following situations, circle YES, NO, or DEPENDS to indicate your opinion related to this person using credit. Also, give reasons for your response.

Answers may vary.

1. Gina, age 18, plans to buy a car on credit so that she is able to drive to school.

YES

NO

DEPENDS

2. Fran and Simon recently took out a loan for a new roof.

YES

NO

DEPENDS

3. Pavel, age 20, recently used his credit card to pay for textbooks for his new semester of classes.

YES

NO

DEPENDS

4. Marcia, age 28, charges all her groceries on her credit card.

YES

NO

DEPENDS

5. Sandy and Carla, age 24 and 27, are planning on buying a boat on credit for use during summers. Carla will be the main signer for the loan, with Sandy being the co-signer.

YES

NO

DEPENDS



overhead A

Overhead A
Advantages and disadvantages
of using credit

03.03.01

Advantages

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing cheques
- Consolidates bills into one payment
- Emergencies

Disadvantages

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur



overhead B

Overhead B The three Cs

03.03.01

Character—Will you repay the debt?

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

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

Capital—What if you don't repay the debt?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

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

Capacity—Can you repay the debt?

Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

- Do you have a steady job? 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 do you have?



overhead C

Overhead C Types and sources of credit

03.03.01

Single-payment credit

Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged.

- Utility companies, medical services
- Some retail businesses

Instalment credit

Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included. A repayment plan is drawn up in the form of a conditional sales contract based upon fulfilling a number of conditions of the contract.

- Some retail businesses, such as car and appliance dealers

Consumer loans

Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in regularly scheduled payments.

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

Revolving credit

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

- Retail stores
- Financial institutions that issue credit cards



Lesson 02 Rights, responsibilities and debt load

.02

Overview

According to the Financial Consumer Agency of Canada, a federally regulated financial institution is obligated to follow certain protocol and acknowledge certain civil rights in their granting of a loan or credit to you.

Financial institutions are required to provide you with information about the costs of borrowing and any charges or penalties that may apply, at or before the time a loan or a credit or charge card is issued.

Financial institutions must express the cost of borrowing as a rate per year and, in prescribed circumstances, as an amount in dollars and cents.

You are entitled to prepay a loan before it comes due without penalty, unless the loan is secured by a mortgage on real property.

You are not required to maintain a minimum credit balance, unless you agree to do so.

The above focuses on the obligations of the lender. In this lesson we can compare this with the obligations and responsibilities of the debtor.

Goals

To help students to understand both the lender's and borrower's rights and responsibilities related to consumer credit.

To help students understand the importance of the debt-to-income ratio and the rules of thumb lenders use to figure out how much to lend you.

Objectives

List and understand some of your rights and responsibilities related to consumer credit.

Develop an understanding of debt load and how it is used to determine if you are carrying a reasonable amount of debt.

Timeline

Classroom discussion (Overhead A)	10 minutes
Classroom discussion (Overhead B)	10 minutes
Student activity	10 minutes
Classroom discussion (Overhead C)	05 minutes
Activity A	15 minutes
Supplemental activity	25 minutes

Instructions

Classroom discussion

Ask students to list what responsibilities the debtor has to the creditor. (Use the example where you borrowed \$20 from the students to buy your lunch.)

What responsibilities as the debtor do you have to the class? Now using Overhead A Your responsibilities, identify the responsibilities of the borrower.

Ask the class to identify any rights the borrower may have before you show them Overhead B, Your rights.

Class activity

Using an LCD projector and computer, go as a class, to www.practicalmoneyskills.ca—select: Students, select: Debt and read “What is debt load?” and “The 28/36 rule.” Do a few examples together using different monthly incomes, non-housing debt, and mortgage debt to determine the debt to income ratios. Alternatively, or along with the above, use Overhead C How much can you afford? to demonstrate the 20-10 guideline.

Student activity

Distribute Activity A How much can they safely carry?, giving students 15 minutes to complete. When finished, have three students show their calculations on the board. Discuss the answers as a class.

Note taking

Students can take notes from overheads A, B, and C or teacher can prepare handouts.

Teacher Notes

Preparation of required materials, prior to lesson (overheads and activity pages).

Review suggested questions in lesson.

Familiarize yourself with the Web resources in the supplemental activity.

Required Materials

Overhead A, Your responsibilities

Overhead B, Your rights

Overhead C, How much can you afford?

Activity A, How much can they safely carry?

(and answer sheet)

LCD projector and computer

Internet access

Choices and Decisions interactive CD

Assessment and Evaluation

Students write a brief reflection paragraph drawing conclusions about consumer credit, based on all the information gathered and their prior knowledge. What real-life experiences have they had that would verify the conclusion?

Supplemental Activities

Using the *Choices and Decisions* interactive CD and an LCD projector, play “The Get-out-of-Debt Quiz Show,” with the whole class. From the Main menu of *Choices and Decisions—taking charge of your financial life*: Select: Test your cents—Test your financial IQ to see if you can ace Money 101.

Play the Get-out-of-Debt Quiz Show

Select: Paying with Plastic

Select: Getting Credit

Select: Using Credit

Select: Credit Problems

Select: A Closer Look

When you have finished each of the above

Select: Review

Additional Web Resources

Practical Money Skills

www.practicalmoneyskills.ca

YourMoney

www.yourmoney.cba.ca



Activity A

How much can they safely carry?

03.03.02

name: _____

date: _____

Most people can afford a certain amount of credit and stay within a safe budget. This amount is called a “safe debt load.” The following exercises will give you practice in determining safe debt loads based on various incomes and fixed expenses.

Directions

Read each of the following scenarios and determine the largest amount of debt each person can safely carry. Write your answers in the blanks provided. Use the space below each question to show how you arrived at each answer.

1. David has a monthly net income of \$1,360. His fixed monthly expense is a student loan payment of \$116. David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford and still be within a safe debt load?

2. Francine and Pierre have a combined monthly net income of \$2,700. Their fixed monthly expenses include \$220 for Francine’s student loan payment and \$82 for the stereo they bought last month. Francine and Pierre would like to buy a new car. How much can they currently afford for monthly car payments and still maintain a safe debt load?

3. Miyoshi has a monthly net income of \$1,625. Her fixed monthly expenses include \$68 for the furniture she bought last month and a car payment of \$167. Are Miyoshi’s expenses within a safe debt load?



activity A

Activity A

How much can they safely carry? (answers)

03.03.02

name: _____

date: _____

Most people can afford a certain amount of credit and stay within a safe budget. This amount is called a “safe debt load.” The following exercises will give you practice determining safe debt loads based on various incomes and fixed expenses.

Directions

Read each of the following scenarios and determine the largest amount of debt each person can safely carry. Write your answers in the blanks provided. Use the space below each question to show how you arrived at each answer.

1. David has a monthly net income of \$1,360. His fixed monthly expenses is a student loan payment of \$116. David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford and still be within a safe debt load?

David can afford to pay \$20 a month on a new television.

$$\underline{\$1,360 \times 10\% = \$136}$$

$$\underline{\$136 - \$116 = \$20}$$

2. Francine and Pierre have a combined monthly net income of \$2,700. Their fixed monthly expenses include \$220 for Francine’s student loan payment, and \$82 for the stereo they bought last month. Francine and Pierre would like to buy a new car. How much can they currently afford for monthly car payments and still maintain a safe debt load?

Francine and Pierre are already above their safe debt load and need to reduce their debt load before being able to afford the car.

$$\underline{\$2,700 \times 10\% = \$270}$$

$$\underline{\$270 - \$302 = - \$32}$$

3. Miyoshi has a monthly net income of \$1,625. Her fixed monthly expenses include \$68 for the furniture she bought last month and a car payment of \$167. Are Miyoshi’s expenses within a safe debt load?

$$\underline{\$1,625 \times 10\% = \$162.50}$$

$$\underline{\$162.50 - 235 = - \$72.50}$$

Right now Miyoshi is over committed and is not within a safe debt load. She should not commit to further debt.



overhead A

Overhead A

Your responsibilities

03.03.02

- Borrow only what you can repay.
- Read and understand the credit contract.
- Pay debts promptly.
- Notify creditor if you cannot meet payments.
- Report lost or stolen credit cards immediately.
- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.
- Never leave your credit cards unattended at work.
- Protect your personal identification number (PIN).
- Don't leave your credit cards in your vehicle.
- Always check your card when returned to you after a purchase.
- Carry your cards with you or make sure they are in a secure location.
- Sign the back of a new card as soon as you get it.
- Make a list of all your cards and their numbers.
- Always check your monthly statement.



overhead B

Overhead B
Your rights

03.03.02

Consumer Protection Act

Ensures consumers are fully aware of their rights.

Human Rights

Prohibits discrimination in giving credit on the basis of sex, race, colour, religion, national origin, marital status, age, or receipt of public assistance.

Credit Reporting Act

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

Collection Agencies Act

Prevents abuse by professional debts collectors, and applies to anyone employed to collect debts owed to others; does not apply to banks and other businesses collecting their own accounts.

Sale of Goods Act

Contract of sale between buyer and seller. Encompasses type of contract, enforcement provisions, duties, and remedies.

Fair Trading Act

Applies to consumer transactions and unfair practices that occurred after September 1999.



overhead C

Overhead C
How much can you afford?

03.03.02

The 20 -10 guideline

Never borrow more than 20% of your yearly net income.

- If you earn \$3,000 a month after taxes, then your net income in one year is

$$12 \times \$3,000 = \$36,000$$

- Calculate 20% of your annual net income to find your safe debt load.

$$\$36,000 \times 20\% = \$7,200$$

- So, you should never have more than \$7,200 of debt outstanding.
- Note—Housing debt (e.g., mortgage payments) should not be counted as part of the 20%.

Monthly payments shouldn't exceed 10% of your monthly net income

- If your take-home pay is \$3,000 a month

$$\$3,000 \times 10\% = \$300$$

- Your total monthly debt payments shouldn't be more than \$300 per month.



Lesson 03
Building a credit history

.03

Overview

Every day, Canadians purchase goods and services using credit. The decision to extend credit to a buyer is made by a seller, based in large part on the results of an applicant's personal credit file. If you have ever taken out a bank loan, had a mortgage, used a credit card, or signed a cell phone contract, you have a credit history. This information is available from a consumer-reporting agency (credit bureau).

Without a credit rating, few institutions will lend you money. Building a good credit rating is not rocket science; it is common sense. A good credit rating is an extremely valuable asset.

In this lesson students will discover what a credit bureau is, how consumers establish a good credit history, credit score, and what a credit report looks like.

Goal

To help students become aware of the importance of establishing a good credit history.

Objectives

Describe how to establish a good credit history.
Explain the purpose and importance of a credit bureau, credit report and credit score.
Test the students' credit knowledge.

Timeline

Classroom discussion	10 minutes
Student activity	20 minutes
Test	20 minutes
Note taking	10 minutes
Quiz	15 minutes

Instructions

Student activity

Have students go to www.practicalmoneyskills.ca—select: Consumer, select: Credit, select: What credit reports contain. Read through the materials by clicking on “Next.” When you get to “Credit Reports: How do I read it?” at the bottom, select: “Click here” to see what a credit report looks like. Answer the questions on Activity A Credit reports.

Classroom discussion

Discuss with the class what a credit bureau is, what they do, why they exist, how they make money, who uses them, and when the student first establishes a credit rating (cell phone). Discuss how the credit-reporting system benefits both businesses and consumers.

Ask the class to come up with ways a person can establish a good credit history. Why it is important to have a good credit history? Show class Overhead A Building a credit history. Hand out the Supplement, Information about your credit file, allow time to read, and discuss.

Note taking

Students can write a short reflection outlining what they have learned from the discussion.

Quiz

Have students complete the quiz, About credit.

Teacher Notes

Preparation of required materials, prior to lesson (overhead and activity pages, test and quiz).
Review suggested questions in lesson.

Required Materials

Overhead A, Building a credit history
Activity A, Credit reports (and answer sheet)
Activity B, Test your credit knowledge
(two pages and two-page answer sheet)
Supplement, Information about your credit file
Quiz, About credit (and answer sheet)
Internet Access

Assessment and Evaluation

Run Activity B as a summative test or formative test allowing students to go to the Web sites below to find the answers. The answers can also be found in the Supplement Information about your credit file.

www.practicalmoneyskills.ca

Select: Consumer

Select: Credit

www.equifax.com/home/en_ca

Select: Credit education—learn more

You can receive a [free credit file](#) disclosure from Equifax Canada Inc. via Canada Post.

Supplemental Activities

Invite a bank manager to speak to the class about the importance of maintaining an excellent credit history.

Additional Web Resources

The Money Belt (Government of Canada)
www.themoneybelt.gc.ca



activity A

Activity A Credit reports

03.03.03

name: _____ date: _____

Students go to www.practicalmoneyskills.ca. Select: Consumer; Select: Credit; Select: What credit reports contain. Read through the material by clicking on "Next." When you get to Credit Reports: How do I read it? at the bottom select: Click Here to see what a credit report looks like.

Using the credit report "Reading Your Credit Report," answer the following questions.

Name of person in credit report

Name of credit reporting company

Risk score and explanations for risk score (200–900, 900 being the best score)

Spouse's name and date of birth

Inquiries and number of inquiries

Employer, position, and monthly salary

Bankruptcy—date, liability, assets, type of bankruptcy, date discharged

Collections—collection agency, amount

Judgments—date, amount, defendant, plaintiff, status of judgment

Credit cards—company name, highest amount owed, monthly payment amount, balance owing, amount past due, number of times the account was 30/60/90+ days late, number of times a credit grantor reported on account

Now answer the same questions using the credit report, "Trans Union of Canada Inc. Consumer Credit Report" found in the same location as above.



activity A

Activity A

Credit reports (answers)

03.03.03

Using the credit report “Reading Your Credit Report,” answer the following questions.

Name of person in credit report

Richard Denton

Name of credit reporting company

Equifax

Risk score and explanations for risk score (200–900, 900 being the best score)

549—Account not paid as agreed, public record, or collection agency filing

Spouse’s name and date of birth

Shirley Denton, April 4, 1933

Inquiries and # of inquiries

CIBC, Glassman Management, Bank of Nova Scotia, Teachers Savings Credit Union, Sears # 48

Employer, position, and monthly salary

McDougal’s Haulage, Supervisor, \$2,500

Bankruptcy—date, liability, assets, type of bankruptcy, date discharged

March—1995, \$55,000, \$1,500, Personal, December 1995

Collections—collection agency, amount

Equifax, \$1,260

Judgments - date, amount, defendant, plaintiff, status of judgment

March 1998, \$255, Richard Denton, City of Toronto, satisfied November 1998

Credit cards—1) company name, 2) highest amount owed, 3) monthly payment amount, 4) balance owing, 5) amount past due, number of times the account was 6) 30 days, 7) 60 days, 8) 90+ days late, 9) number of times a credit grantor reported on account

Canadian Tire, Lost or Stolen Card

1) Sears, 2) \$3,106, 3) 0, 4) 0, 5) 0, 6) 00 7) 00 8) 00, 9) 39

1) Royal Bank Visa, 2) \$5,000, 3) 75, 4) \$2,450, 5) \$150, 6) 06, 7) 03, 8) 02, 9) 36

Now answer the same questions using the credit report, “Trans Union of Canada Inc. Consumer Credit Report” found in the same location as above.



activity B

Test your credit knowledge

03.03.03

name: _____ date: _____

The following questions are designed to help you remember the credit information just covered in class.

Directions

In the spaces provided, answer each of the following questions about credit.

List five things you can do to build a credit history.

1. _____
2. _____
3. _____
4. _____
5. _____

When a prospective creditor evaluates a credit application, they look for the three Cs: Character, Capital, and Capacity. For each of the following statements, write the answer that corresponds to each statement's specific characteristic.

- | | a) Character | b) Capital | c) Capacity |
|-----|--------------|------------|-------------|
| 6. | _____ | _____ | _____ |
| 7. | _____ | _____ | _____ |
| 8. | _____ | _____ | _____ |
| 9. | _____ | _____ | _____ |
| 10. | _____ | _____ | _____ |
| 11. | _____ | _____ | _____ |

List the four major categories of information that appear on a credit report.

12. _____
13. _____
14. _____
15. _____

Activity B

Test your credit knowledge (continued)

activity B

03.03.03

name: _____

date: _____

In the space provided, write the answer of the type of credit each statement represents.

a) Single payment credit b) Instalment credit c) Revolving credit

16. _____ Monthly payment on a car loan
17. _____ Monthly telephone bill
18. _____ Monthly heating bill
19. _____ Using a credit card to buy a new jacket from a department store and then paying the charge off over several months
20. _____ Using a major credit card to buy a pair of shoes and then paying the total amount of the credit card balance within a month

For each of the following statements, write a T in the space provided if the statement is true, and F in the space provided if the statement is false.

21. _____ It is legal for a creditor to deny an applicant credit based on marital status or age.
22. _____ If you are denied credit, the creditor is not legally obligated to explain why.
23. _____ When creditors evaluate your income, they can't legally refuse to consider income from public assistance in the same manner as other income.
24. _____ If you are refused credit because of a credit report, upon request from you, the lender must give you the name and address of the credit bureau that issued the report.
25. _____ Your credit report is available to anyone, regardless of the reason.
26. _____ A debt collector has the right to contact you at any time of day or night.
27. _____ To be within a safe debt load, your total credit should not exceed 50% of your net pay after subtracting rent.
28. What should you do if you find there is inaccurate information on your credit report?

29. Generally, how long can a consumer reporting agency report unfavourable information?

30. How long can bankruptcy information be reported by a consumer reporting agency?



Activity B

Test your credit knowledge (answers)

03.03.03

The following questions are designed to help you remember the credit information just covered in class.

Directions

In the spaces provided, answer each of the following questions about credit.

List five things you can do to build a credit history.

1. Establish a steady work record.

2. Pay all bills promptly.

3. Open a chequing account and don't bounce cheques.

4. Open a savings account and make regular monthly deposits.

5. Apply for a small loan using your savings account for collateral and then pay it back as agreed.

6. Get a co-signer for a loan and pay back the loan as agreed.

When a prospective creditor evaluates a credit application, they look for the three Cs: Character, Capital, and Capacity. For each of the following statements, write the answers that corresponds to each statement's specific characteristic.

a) Character

b) Capital

c) Capacity

6. b Do you have a savings account?
7. a Have you used credit before?
8. a How long have you lived at your present address?
9. c Do you have a steady job?
10. a Do you pay your bills on time?
11. c What are your current debts and your current living expenses?

List the four major categories of information that appear on a credit report.

12. Identification and employment data

13. Payment history

14. Inquiries

15. Public record information

Activity B

Test your credit knowledge (answers continued)

activity B

03.03.03

In the space provided, write the answer of the type of credit each statement represents.

a) Single payment credit b) Instalment credit c) Revolving credit

16. b Monthly payment on a car loan
17. a Monthly telephone bill
18. a Monthly heating bill
19. c Using a credit card to buy a new jacket from a department store and then paying the charge off over several months
20. a Using a major credit card to buy a pair of shoes and then paying the total amount of the credit card balance within a month

For each of the following statements, write a T in the space provided if the statement is true, and F in the space provided if the statement is false.

21. F It is legal for a creditor to deny an applicant credit based on marital status or age.
22. F If you are denied credit, the creditor is not legally obligated to explain why.
23. T When creditors evaluate your income, they can't legally refuse to consider income from public assistance in the same manner as other income.
24. T If you are refused credit because of a credit report, upon request from you, the lender must give you the name and address of the credit bureau that issued the report.
25. F Your credit report is available to anyone, regardless of the reason.
26. F A debt collector has the right to contact you at any time of day or night.
27. T To be within a safe debt load, your total credit should not exceed 50% of your net pay after subtracting rent.
28. **What should you do if you find there is inaccurate information on your credit report?**
Contact the credit bureau. Under the Collections Practices Act, the credit bureau must investigate your report.

29. **Generally, how long can a consumer reporting agency report unfavourable information?**
7 years

30. **How long can bankruptcy information be reported by a consumer reporting agency?**
At least 6 years



Supplement

Supplement

Information about your credit file

03.03.03

Every day, Canadians purchase goods and services using credit. The decision to extend credit to you, the buyer, is made by the seller—commonly referred to as the “credit grantor.” Most often, this decision involves reviewing your personal credit file, which is obtained from a credit-reporting agency such as Equifax. The agency is a clearing house for credit information. Credit grantors provide the agency with factual information about your credit history.

The reporting agency then assembles this information into your personal file. In return, credit grantors can access your files before granting credit to you and/or to identify you for security purposes. Only you and credit grantors can alter your personal file.

How long is information kept on my credit file?

- Inquiries made by credit grantors are retained for a minimum of three years.
- Credit history and banking information is retained for six years.
- Bankruptcies are retained for six years from the date of discharge (for first bankruptcy).
- Judgments, foreclosures, and garnishments are retained for six years from the date filed.
- Credit counselling, consumer proposals to creditors, Orderly Payment of Debt (OPD), voluntary deposit information is retained for three years from the date settled.
- Collections are retained for six years from the date of last activity.
- Secured loans are retained for six years from the date filed.

What is an inquiry?

Account inquiries are carried out by credit grantors when you apply for credit and by organizations based on their client lists before making a promotional offering.

Why was I denied credit?

Credit reporting agencies neither grant nor deny any application for credit. They simply provide a factual account of your credit history to credit grantors. Each credit granting organization reviews this information and makes an independent decision based on its own individual criteria. If there is inaccurate information on your file, contact a credit-reporting agency so that the necessary amendments can be made.

Why is something I have paid off still in my credit file?

The fact that you have paid an account on time, or did not pay as agreed, is of interest to any potential credit grantor because it reflects your ability to pay your bills. A credit file shows past and present transactions.

What can be done if I suspect I am a victim of identity fraud?

If you have lost or had your personal identification stolen, or an institution has contacted you regarding suspected fraud activity, please call your credit-reporting agency. A statement should be added to your file to alert credit grantors that you may be a victim of fraud activity.



overhead A

Overhead A

Building a credit history

03.03.03

In order to establish a strong credit history,

- Establish a steady work record.
- Pay all bills promptly.
- Open a chequing account and don't bounce cheques.
- Open a savings account and make regular deposits.
- Apply for a local store credit card and make regular monthly payments.
- Apply for a small loan using your savings account as collateral.
- Get a co-signer on a loan and pay back the loan as agreed.

credit bureaus

- Equifax (1-800-465-7166)
- Trans Union
- Local credit bureaus affiliated with these major companies



About Credit

quiz

Quiz

03.03.

name: _____

date: _____

True/False (5 marks)

1. ____ A disadvantage of using credit is impulse buying.
2. ____ Capital refers to a person's assets.
3. ____ Steady employment record helps a person's credit history.
4. ____ Instalment credit usually allows a person to make additional purchases on an account.
5. ____ Using the 20-10 guideline, a person making \$40,000 net a year should have no more than \$8,000 of outstanding debt.

Multiple Choice (5 marks)

6. A common advantage of using credit is
 - A. less impulse buying.
 - B. lower cost for items purchased
 - C. ability to obtain needed items now
 - D. lower chance of overspending
7. A person's regular income is referred to as
 - A. character
 - B. capital
 - C. collateral
 - D. capacity
8. To build a credit history, a person could
 - A. establish a steady employment record
 - B. file his or her federal income taxes on time
 - C. use an ATM several times a month
 - D. request to view her or his credit file
9. Utility companies and medical service organizations commonly offer _____ credit.
 - A. revolving
 - B. single-payment
 - C. instalment
 - D. retail
10. Using the 20-10 guideline, a person earning \$1,500 a month should not have monthly credit payments that exceed
 - A. \$300
 - B. \$150
 - C. \$20
 - D. \$30

Case Application (5 marks)

Makiko Nagata is considering a loan to finance her college education. She currently owes money on several charge accounts and credit cards. What actions would you recommend?



Answers About Credit

quiz

Quiz

03.03.

True/False (5 marks)

1. t A disadvantage of using credit is impulse buying.
2. t Capital refers to a person's assets.
3. t Steady employment record helps a person's credit history.
4. f Instalment credit usually allows a person to make additional purchases on an account.
5. t Using the 20-10 guideline, a person making \$40,000 net a year should have no more than \$8,000 of outstanding debt.

Multiple Choice (5 marks)

6. A common advantage of using credit is
C. ability to obtain needed items now
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10. Using the 20-10 guideline, a person earning \$1,500 a month should not have monthly credit payments that exceed
A. \$300

Case Application (5 marks)

Makiko Nagata is considering a loan to finance her college education. She currently owes money on several charge accounts and credit cards. What actions would you recommend?

While this is a valid reason for using credit, Makiko might consider paying off some of her other debts before taking on this new loan. She might delay starting school full time until she has paid off her other accounts.