

Money Matters

Workbook 3 Borrowing Money



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Welcome to *Money Matters!*

We designed *Money Matters* to help you take better care of yourself by taking better care of your money. When you feel good about your money management, you're less stressed, and you have more energy for the things that are important to you.

That's part of what we do at ABC Life Literacy Canada: we help Canadians get the tools they need to increase their literacy so they can live a fully engaged life. *Money Matters* gives you basic, practical information about money. It'll help you better understand spending, borrowing and saving—how you can put the money you have to work for you.

It also shows you ways to reach your long-term goals. You'll learn about registered savings plans for helping your money grow more quickly. Do you have kids? You'll also learn about ways to help you save for their future.

When you're done the program, you'll have new knowledge but also new questions. We have a list of extra resources for you, so you can get answers and keep improving your financial literacy.

We hope you enjoy *Money Matters!*

Sincerely,

Mack Rogers, Executive Director
ABC Life Literacy Canada

Workbook 3: Borrowing Money

“How can I use credit, but avoid the pitfalls?”

Learning Outcome:

Know how credit works, and apply ways to keep credit in check.



What Will You Learn?

This workbook is about **credit**—what it is, how to use it wisely, and how to get it under control when your debt is too big to handle.

You’ll take a look at different kinds of credit and the cost of borrowing.

You’ll learn ways to avoid the costs piling up, so that if you need to borrow money, it is there for you.



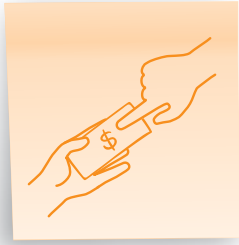
Credit is buying now and paying later.

You can pay a fee when you use credit.

The fee includes **interest** and often service charges.

A Place for Your Notes:

Activity 1



Getting in Touch With Your Money

A self-assessment quiz

What to do

- Check off the statement that best applies to you.
- Think about your money, your needs, your life.
- Have you ever put something on credit?
Did you (or do you still) find it hard to clear off your debt?

- I don't buy anything on credit.
- I owe money on a loan, but always make my payments on time.
- I worry about my debt. I can't sleep and even feel ill about it.
- None of the above applies to me. Here's my situation:

A Place for Your Notes:

Activity 2

Group Discussion



Is debt bad? Is credit bad?

Is there such a thing as good debt and good credit?

What does it mean to use credit to your advantage?

Have you made a spending plan before?

Did it show that you spend more money than you make?

Are you making up the shortfall by going into debt?



Having debt usually means you're spending more than you're making. When you're not watching your money, debt can catch you by surprise.

A Place for Your Notes:

Activity 3

Meet Tenzin and Riley



Tenzin

Tenzin bought a big screen TV on a “Buy Now, Pay Later” offer. He bought the TV on a whim, seeing the offer in a flyer, and figuring he couldn’t pass up such a deal. Tenzin also has Visa, and a credit card from a department store. Sometimes he has to get cash advances on the Visa to make the minimum payment on his other card, but so far he’s managed to juggle things.

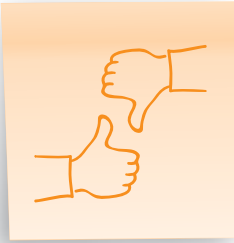


Riley

Riley’s bank suggested she get a credit card to start building a good credit history. She puts a few things on the card each month, and pays the full amount she owes when she gets her bill. Riley was glad she had the credit card when she unexpectedly had to buy a plane ticket. Her mother was ill. Riley went to visit her mother in the hospital.

What’s Your Story?

Activity 4



Bad Debt, Good Debt

What are the warning signs that Tenzin is on a fast track to big money trouble?



Warning Signs

1. _____
2. _____
3. _____

Have you bought something through a “Buy Now, Pay Later” offer? What were the terms?

Was the experience good or bad for you?



“When you’re having problems making ends meet, avoid ‘Buy Now, Pay Later’ offers. The fees and high interest rates if you don’t pay on time will add to your existing debt load.”

Financial Consumer Agency of Canada

A Place for Your Notes:

Activity 5

To Her Credit



What does Riley do differently than Tenzin when it comes to her credit card?

Riley's Credit Smarts...

1. _____
2. _____
3. _____



If you're disciplined, credit cards can be a great tool. Only use them for costs you know you can pay off when the bill comes in.

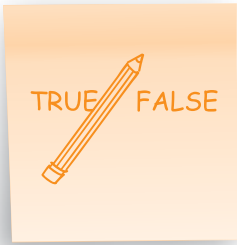


Money Challenge

Do you know the date when a credit card or another payment is due each month to avoid interest and late fees? Check it out on your bill.

A Place for Your Notes:

Activity 6



True or False

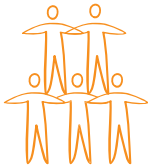
Is a pawnshop a kind of credit?

What do you think?

Circle one: **TRUE** **FALSE**



A loan is money that you have borrowed. You agree to pay it back according to a pay schedule. There is a fee.



Try This Group Activity

Create together a list of different kinds of credit. Have group members used them?

How much interest did they pay on the money they borrowed? What happened if they were late paying?

Compare the list to the “Ways to Borrow” chart on the following pages. Add to the list ways to borrow that group members missed, or didn’t know about.



Interest is a fee you pay to borrow money. It is added to the amount you borrow. You pay back the loan plus interest.

A Place for Your Notes:

Ways to Borrow

Type of Borrowing	What It Is	Money Notes
Payday Loan	A short-term loan from a cash store.	Fees are high. If the loan isn't paid back by the due date, interest rates increase a lot.
Buy Now, Pay Later	An offer by a store where you get the item now, and agree to pay the full amount by a due date.	If you don't pay in time, you often have to pay a high interest rate starting from the date you got the item.
Rent to Own	You rent an item. After a period of payments, you own the item or may purchase it. You don't own the item while you're renting it.	You end up paying much more for the item than if you bought it at the start.
Lease	You rent an item for a period of time, but don't own it.	At the end of the lease, there may be hidden costs, such as "wear and tear" on a car.
Pawnshop	A place where you get a loan by using an item you own as a deposit.	If you don't repay the loan in time, the pawnshop keeps the item.
Bank credit card	A credit card from a bank, or another financial institution.	Interest rates and fees vary. There are low-interest credit cards.
Retail credit card	A credit card from a store.	Interest rate is often much higher than a bank credit card.

More Ways to Borrow

Type of Borrowing	What It Is	Money Notes
Line of Credit	A loan where you can borrow money when you need it. The loan is pre-approved.	Interest rate is often lower than a credit card or other types of loans.
Cash advance on a bank credit card	You take out a cash loan on your credit card.	Although you often pay more interest than using a line of credit, the amount is less than a payday loan.
Overdraft	It allows you to withdraw more money than you have in your bank account.	You pay interest on the amount you've borrowed until you pay the amount back in your account plus the fees. It costs less than a payday loan.
Secured Credit Card	A credit card where you make a payment before you can use it.	Usually the credit limit is the same amount as what you've pre-paid.
Personal Loan	A loan for personal use rather than business. Also called a consumer loan.	Interest rates vary according to your credit history.
Mortgage	A personal loan for buying a home. It is often considered a "good" debt.	Interest rates vary. If you don't make your payments, you can lose the house.
Student Loan	A government loan to help pay tuition and other costs. It is often considered a "good" debt.	Interest rate is low. You pay back the loan at a set time after leaving school.

Activity 7



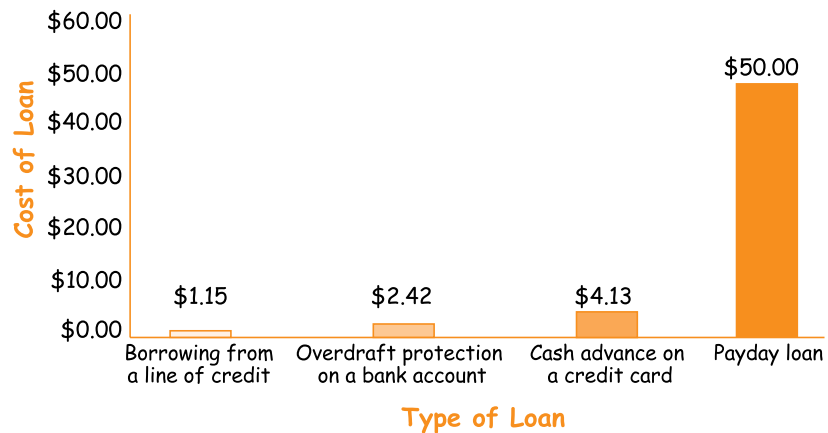
Group Discussion

What are good and bad things about the different ways of borrowing?

If you have to borrow money, what makes the most money sense to you?

Comparing the cost of a payday loan with other types of short-term loans

Based on a \$300 loan taken for 14 days



Source of chart: Financial Consumer Agency of Canada



Buyer Beware

Stores often offer interest-free deals for purchases made with the store's retail credit card. But if you don't pay back the money you owe in full by the time the interest-free period ends, you get charged interest from the date you made the purchase.

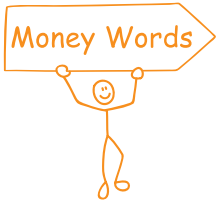
Since the interest rate for store cards is higher than for bank credit cards, this can end up costing you a lot.

Activity 8



How Does Interest Work?

Let's say you borrow \$100.
Your interest rate is 20% per year (**APR**).



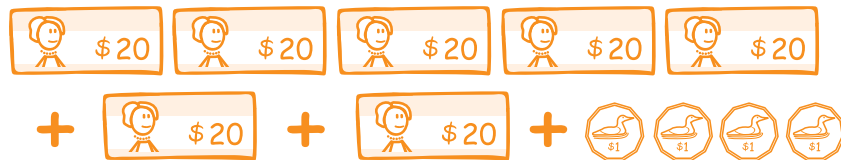
APR is short for **Annual Percentage Rate**.

APR is the rate of interest charged on a loan each year.

If you don't pay back the amount you borrowed in time...
20% is added on top of what you owe.



The amount you owe can keep getting bigger.
That's because you pay interest on the interest.
This is called compounded interest.



Some credit cards also have penalties for missed payments,
such as raising your APR. Some have service charges and
annual fees. The amount you owe can grow even more.



Short Term Loan Math

You are sleeping on an unbelievably lumpy bed. We all need a good rest to function well, but you just don't have the cash to replace it. Sometimes we all have to borrow a little money to make ends meet.

Let's assume your new bed will cost \$200.00. How will you pay? You can pay with a credit card, payday loan or line of credit. Assuming you pay back the loan in 1 year, calculate how much each loan will cost you.

Example: A new cell phone costs \$60.00. The cost of borrowing for one year is:

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

The Math:

Credit Card

Loan:	\$60.00	
Interest:	x 20%	
	(0.20 on your calculator)	
Total Interest:	\$12.00	
+ Service Fee:	+ \$ 0.00	
Total cost of loan:	\$12.00	

Payday Loan

Loan:	\$60.00	
Interest:	x 25%	
	(0.25 on your calculator)	
Total Interest:	\$15.00	
+ Service Fee:	+ \$10.00	
Total cost of loan:	\$25.00	

Line of Credit

Loan:	\$60.00	
Interest:	x 5%	
	(0.05 on your calculator)	
Total Interest:	\$ 3.00	
+ Service Fee:	+ \$ 0.00	
Total cost of loan:	\$ 3.00	

The cost of borrowing is:

Credit Card: \$12.00 Payday loan: \$25.00 Line of Credit: \$3.00

Now you try it with the purchase of your bed to see how much you can save by making different loan choices.

Credit Card

Loan:	\$ 200.00
Interest:	x 20%
(0.20 on your calculator)	_____
Total Interest:	\$.
+ Service Fee:	+ \$ 0.00

Total cost of loan:	\$.

Payday Loan

Loan:	\$ 200.00
Interest:	x 25%
(0.25 on your calculator)	_____
Total Interest:	\$.
+ Service Fee:	+ \$ 10.00

Total cost of loan:	\$.

Line of Credit

Loan:	\$ 200.00
Interest:	x 5%
(0.05 on your calculator)	_____
Total Interest:	\$.
+ Service Fee:	+ \$ 0.00

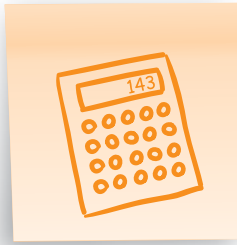
Total cost of loan:	\$.

The cost of borrowing is:

Credit Card: \$. Payday loan: \$. Line of Credit: \$.

Always compare the cost of borrowing when you need a loan... you may be able to save!

Activity 9



Do the Money Math

Suppose you have a balance of \$500 on a credit card, and the amount stays the same for a year.

What is the better deal for you?

- A credit card with an interest rate of 19% and no annual fee
- A credit card with an interest rate of 12% and an annual fee of \$50



The **balance** is the money owing on the credit card.

Hint

To figure out the interest you'd pay for a year, multiply the balance owing by the interest rate. Write the interest rate as a decimal. For example, 19% as a decimal is .19, and 12% as a decimal is .12.

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

Balance owing	Interest	Annual fee	Annual cost (not including payment of balance)
\$500	\$95 (\$500 X 0.19)	\$0	\$95

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

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



Try This

Work with a partner to do the money math. What is the better deal if you have a balance of \$1000?

More Money Math

Use the math you learned on page 15 to calculate different interest rates on different cards. This will help you choose the card that is right for you.

Example 2

Balance owing	Interest 19%	Annual fee \$0	Annual cost (not including payment of balance)
\$1000	\$190 ($\1000×0.19)	\$0	\$190

Balance owing	Interest 12%	Annual fee \$50	Annual cost (not including payment of balance)
\$1000	\$120 ($\1000×0.12)	\$50	\$170

Which card is better for a \$1000.00 balance—Annual Fee card or No Annual Fee card?

You try it!

Balance owing	Interest 21%	Annual fee \$0	Annual cost (not including payment of balance)
\$350	\$ _____ ($\$350 \times 0.21$)	\$0	\$ _____

Balance owing	Interest 18%	Annual fee \$25	Annual cost (not including payment of balance)
\$350	\$ _____ ($\$350 \times 0.18$)	\$25	\$ _____

Which card is better for a \$350.00 balance—Annual Fee card or No Annual Fee card?

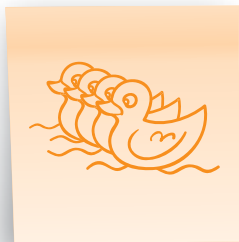
One more try!

Balance owing	Interest 22%	Annual fee \$0	Annual cost (not including payment of balance)
\$200	\$ _____ ($\$200 \times 0.22$)	\$0	\$ _____

Balance owing	Interest 12%	Annual fee \$15	Annual cost (not including payment of balance)
\$200	\$ _____ ($\$200 \times 0.12$)	\$15	\$ _____

Which card is better for a \$200.00 balance—Annual Fee card or No Annual Fee card?

Activity 10



Getting Your “Money Ducks” All in a Row...

Paying off a credit card in full each month, or getting rid of a debt altogether, saves you money since you’re paying no interest fees. You’re also building a good credit history.

Reducing the amount you owe, even a little, saves you money since you’re paying less interest charges.

Money Words



Credit history is information collected about how long it takes you to pay back money you have borrowed. It is kept in files stored by at least one of Canada’s major credit-reporting agencies.

Taking a First Step

Pay off first your debt with the highest interest rate. Then work on the debt with the next highest interest rate... and so on.

Money Words



Your **credit score** or rating indicates how likely you are to pay back a loan based on your credit history.

You’ll want a good credit history and score if you need to borrow money.



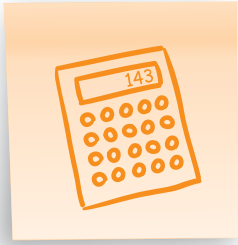
Try This

Try this

Here’s the best order for me to pay off my debts so I save the most money:

1. _____
2. _____
3. _____

Activity 11

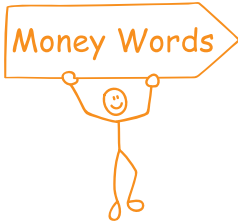


Do the Money Math

Do you know the annual percentage rate (APR) on your credit card or a debt you might owe?

How much interest do you pay each month, in general?

If you don't know, how can you find out?



The **minimum payment** is the minimum amount you're required to pay on a credit card bill.



Making just the minimum payment is a bad plan. Not only will you be in debt for a very long time—you'll also pay a ton of extra money in interest.

A Place for Your Notes:

Activity 12



Signs Your Debt is Too Big

Check any statements that apply to you.

- I use my credit card to buy small purchases.
- My credit card is “maxed out” or close to the limit.
- I borrow to pay my credit card and other debts.
- I skip payments.
- I use payday loans to get by.
- I have less (or no) money left for food because of my debt.
- If I needed extra cash for an emergency, I’d have trouble finding it.
- I worry about my debt. I can’t sleep and even feel ill about it.



The **creditor** is the person or business that has lent you money.



Call your creditors and explain the situation if you can't pay your bills. In most cases, they will work out a payment plan that will make it easier for you to pay off your debt.



Group Discussion

If one or more of the above statements applies to you, then your debt is too big. What can you do? What help is available?

Find out the contact information of non-profit credit counselling service in your community.



Credit counselling provides help 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.

Activity 13



What's Important to You?

Is it in your best interest to have a credit card? If so, what kind? If you have a credit card now, is it the best one for you?

You have choices.

1. Know the interest rate. Interest rates vary greatly. Choosing the right card can save you lots of money on your payments.
2. Know the service charges and fees. Some cards have an annual fee. Does the annual fee save you money in interest charges?
3. Know the costs of the rewards program. Some credit cards offer rewards for using the card. Are the rewards worth more than your interest payments?

Here's my most important thing when choosing a credit card:



If you can't pay off your credit card, switch your balance to a personal loan or a line of credit that has a lower interest rate. You'll pay less in interest charges on the money you owe.

A Place for Your Notes:

Activity 14



Look for the Information Box

Be sure of the details such as fees and interest rate before signing a contract for a credit card.

One way is to read the information box on the credit card application. Check out the sample of an excerpt from an information box on the next page.

Money Words



An **Information Box** is the boxed area on your credit card agreement, and 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."

Financial Consumer Agency of Canada



Group Discussion

What could you do if you have trouble reading or understanding a contract? Has a "pushy" salesperson ever rushed you to sign a contract?

Money Words



A signed **contract** is a legal document of agreement between you and another person or a business. You are responsible for what you sign, so be sure of the terms of the contract.

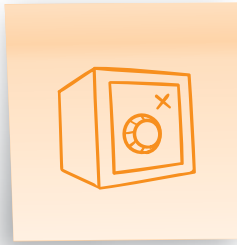
Sample Information Box for a Credit Card Agreement

Initial credit limit	\$5,000
Annual interest rate or rates	<p>These interest rates are in effect the day your account is activated.</p> <p>Promotional rate on purchases: 4.99% for your first three monthly statements</p> <p>Purchases: 19.75% following the promotional period Cash advances: 21.5% Balance transfers: 21.5%</p> <p>Your interest rate will increase to 24.75 on your next statement if you:</p> <ul style="list-style-type: none"> • Make a late payment • Go over your credit limit • Make a payment that is returned • Fail to meet any of the terms in the cardholder agreement.
Interest-free grace period	<p>21 days</p> <p>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.</p> <p>There is no interest-free period on cash advances or balance transfers.</p>
Determination of interest	<p>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.</p>

Excerpted from: Credit Cards: Understanding Your Rights and Your Responsibilities

Financial Consumer Agency of Canada.

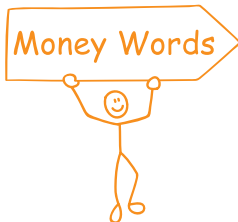
Activity 15



Protect Your Money

Do you...

- Check your monthly credit card statements to make sure that all the transactions were made by you?
- Cover the keypad with your hand or body to make sure no one can see the number when entering your **PIN**?
- Choose a PIN that is hard for someone else to guess, and do you keep your PIN secret?
- Refuse to give your credit card information on the telephone or through email?
- Know how to contact your **credit card** issuer right away if your credit card is stolen or you find transactions that you did not make on your statement?



PIN is short for **Personal Identification Number**.

Have you been a victim of credit card fraud?

If so, how was your personal information or credit card stolen?

Could you have prevented the fraud?



"Credit card fraud happens when someone steals your credit card, credit card information, or PIN and uses it without your permission to make purchases in stores, online or by telephone, or to withdraw money from an automated bank machine."

Financial Consumer Agency of Canada

Activity 16



Word Search Puzzle

Work with a partner. See how many money words about borrowing you can find in the word search puzzle.

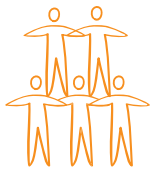
Circle the words. When you have found as many as you can, check the answers on page 26.

Money Words

Look for these words in the word search puzzle:

- APR
- identity theft
- interest
- credit card
- mortgage
- PIN
- credit score
- annual fee
- lease
- rent to own
- debt

i	d	e	n	t	i	t	y	t	h	e	f	t
i	n	t	e	r	e	s	t	i	t	l	e	g
a	n	n	u	a	l	f	e	e	d	e	b	t
r	e	n	t	t	o	o	w	n	a	a	d	t
m	o	r	t	g	a	g	e	e	p	s	t	g
c	r	e	d	i	t	s	c	o	r	e	t	f
c	r	e	d	i	t	c	a	r	d	p	i	n

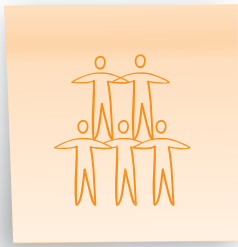


Try This Group Activity

With your partner, define each word.

If you don't know what a word means, ask others in the group. Share what you know with each other.

Activity 17



Try This Group Activity

Have you learned something that might change how you use your credit card?

Do you feel you have more information to help you make better borrowing decisions? What else would you like to know?



Money Challenge

Set up a family meeting to talk about ways to save money and reduce debt.

Reward your family's efforts in fun and inexpensive ways.

Learning More

“Taking Charge of Your Debt” is an online tool from the Government of Canada to help you understand your debt problems and some options that are available to you. Check it out at the Office of Consumer Affairs website:

www.consumer.ic.gc.ca/debt

Credit Counselling Canada provides a list of non-profit credit counselling agencies in communities across Canada:

www.creditcounsellingcanada.ca.

Answer Key

Activity 8 answers

Credit Card

Loan:	\$200.00
Interest:	x 20%
Total Interest:	<u>\$ 40.00</u>
+ Service Fee:	+ \$ 0.00
Total cost of loan:	<u>\$ 40.00</u>

Payday Loan

Loan:	\$200.00
Interest:	x 25%
Total Interest:	<u>\$50.00</u>
+ Service Fee:	+ \$10.00
Total cost of loan:	<u>\$60.00</u>

Line of Credit

Loan:	\$200.00
Interest:	x 5%
Total Interest:	<u>\$10.00</u>
+ Service Fee:	+ \$ 0.00
Total cost of loan:	<u>\$10.00</u>

Activity 9 answers

Balance owing	Interest 21%	Annual fee \$0	Annual cost
\$350	<u>\$73.50</u> (\$350 X 0.21)	\$0	<u>\$ 73.50</u>

Balance owing	Interest 18%	Annual fee \$25	Annual cost
\$350	<u>\$ 63.00</u> (\$350 X 0.18)	\$25	<u>\$88.00</u>

Which card is better for a \$350.00 balance (Annual Fee card or No Annual Fee card)?

No Annual Fee Card

Balance owing	Interest 22%	Annual fee \$0	Annual cost
\$200	<u>\$42.00</u> (\$200 X 0.22)	\$0	<u>\$ 42.00</u>

Balance owing	Interest 12%	Annual fee \$15	Annual cost
\$200	<u>\$24.00</u> (\$200 X 0.12)	\$15	<u>\$39.00</u>

Which card is better for a \$200.00 balance (Annual Fee card or No Annual Fee card)?

Annual Fee Card

Activity 16 answers

- APR
- identity theft
- interest
- credit card
- mortgage
- PIN
- credit score
- annual fee
- lease
- rent to own
- debt

i	d	e	n	t	i	t	y	t	h	e	f	t
i	n	t	e	r	e	s	t	i	t	l	e	g
a	n	n	u	a	l	f	e	e	d	e	b	t
r	e	n	t	t	o	o	w	n	a	a	d	t
m	o	r	t	g	a	g	e	e	p	s	t	g
c	r	e	d	i	t	s	c	o	r	e	t	f
c	r	e	d	i	t	c	a	r	d	p	i	n



APR

the rate of interest charged on a loan each year. Short for Annual Percentage Rate

balance

the money owing on a loan, or the money you have in a personal savings account

contract

a legal document of agreement between you and another person or a business

credit

buying now and paying later

credit card

a card that lets you buy things now and pay later, usually for a fee

credit counselling

help available to you when your debt is too big for you to manage

credit history

information collected about how long it takes you to pay back money you have borrowed

credit score

a score or rating given to you that predicts how likely you are to pay back a loan based on your credit history

creditor

the person or business lending you money

information box

a boxed area on your contracts, bills, and statements that tells you important details, such as how much interest you pay

interest

a fee paid to borrow money

loan

money you have borrowed, and agree to pay back for a fee and according to a pay schedule

minimum payment

the minimum amount you're required to pay on a credit card bill

PIN

a secret number you pick to use with your credit card or debit card.
Short for Personal Identification Number



Congratulations!

You've now completed Workbook 3 of *Money Matters*, a program designed to help you make your money work for you.

You've taken an important step to a better understanding of how to take care of yourself by taking care of your money. This is called **financial literacy**.

We hope you've learned things that you can put to practice in your life. We also hope that you feel more comfortable going to a bank or another financial institution to ask questions, get advice, and choose the best money option for you.

Don't forget! Remember!

Now please take the time to finish filling out the course evaluations. This will help us to improve the course and make changes you need.





Thank you for participating
in the *Money Matters* program.



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