Managing Money

A guide to budgeting, credit use and avoiding money mishaps.

CANADIAN BANKERS ASSOCIATION
Building a Better Understanding

On behalf of the banking industry, the Canadian Bankers Association has embarked on a program called Building a Better Understanding. This is our commitment to try and communicate better and to provide useful financial information to Canadians.

As part of the program, we are offering a free series of publications, ranging from money management and interest rates to mortgages, starting a small business and saving for your children's education. To obtain copies, call toll-free 1-800-263 0231 or visit our web site at www.cba.ca. You can also order by writing to Building a Better Understanding, c/o Canadian Bankers Association, Box 348, Commerce Court West, 199 Bay St., 30th floor, Toronto, Ontario M5L 1G2.

Published by the Canadian Bankers Association March 1998.

These publications are also available in alternative formats for people who are partially sighted or have limited vision.

La version française de cette brochure est disponible sur demande.

Table of Contents

Introduction . . . . Page 3
How financially fit are you? . . . . Page 4
Take control of your finances . . . . Page 6
People and their money . . . . Page 8
Calculating your income . . . . Page 12
Figuring out your expenses . . . . Page 13
Money mishaps . . . . Page 15
What are you worth? . . . . Page 17
Managing credit . . . . Page 18
Applying for credit . . . . Page 19
How you pay for credit . . . . Page 20
Your credit options . . . . Page 21
Should I borrow? . . . . Page 23
Smart credit use . . . . Page 24
Building a good credit rating . . . . Page 24
How to check your credit rating. . . . . Page 25
Dealing with a credit crisis? . . . . Page 26
Appendix . . . . Page 27

Introduction

Managing money in today's world is increasingly complicated. Not only do we have more spending options than in the past, we now have more choices of how to pay – cash, cheque, credit card, debit card, pre-authorized withdrawals and through the Internet.

We all use our money in different ways, reflecting our values and priorities. Regardless of our financial personalities, what we decide to do with our money today will impact our lives tomorrow. That's why taking control of our money right now – where it comes from and where it goes – is the first step towards a secure future.

Managing your money means paying attention to the money you have and how you use it. This booklet, part of an information series on financial and economic topics, is designed to help you better manage your finances.

Published by the Canadian Bankers Association, *Managing Money* offers a step-by-step approach to budgeting – the first step in assessing and managing the flow of your money. It also looks at borrowing and credit use, both important in the money management process. We offer this booklet as a starting point and have included some budget work sheets and practical tips to get you started.

More than anything, this book is intended to get you thinking about personal money management as a way of better preparing for your financial future. There are many other valuable resources – book stores, your local library, the Internet, newspapers, magazines and your financial institution. Talk to friends, family members and acquaintances about their strategies. As with any thoughtful decision, it's smart to use as many resources as possible.

We hope this booklet helps get you started on the path to better money management.

How Fit

Do you think you're doing a good job of managing your money? Or do you feel your spending is out of sync with your income? To see what kind of shape you're in, take a few minutes to fill out this financial fitness test. Answer yes or no to the questions below.

- Do you usually pay your bills late?
- Are you using more and more of your income to pay debts?
- Are you paying your bills with money you had planned to use for other things?
- Are you paying only the minimum amount on your loans and credit cards every month?
- Are you at or over the limit on your credit cards?
- Are you borrowing money or using credit cards to pay for things you previously bought with cash?
- Are you using your savings to pay bills?
- Has a collection agency recently called about overdue bills?
- Have you put off visiting the dentist or buying prescriptions because you can't afford them?
- If you or your spouse lost your job, would you be in financial trouble immediately?
- Are you uncertain exactly how much money you owe?

Financially Are You?

How Did You Score?

Total the number of "yes" answers to determine your financial fitness.

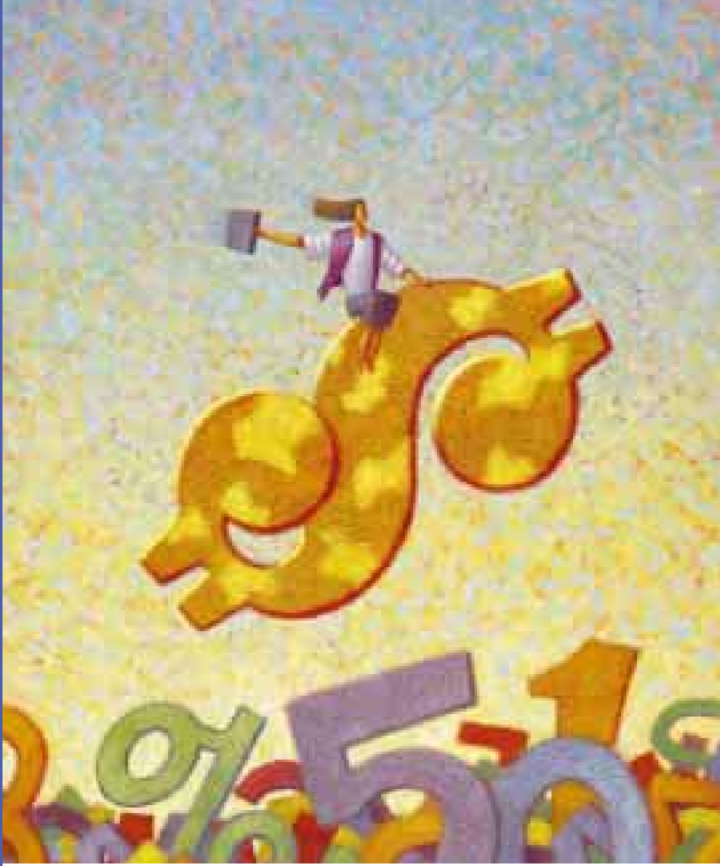
0: You're the picture of financial health. You're sensible about using credit and take budgeting and saving seriously. But you may still learn some valuable tips in this booklet.

1-2: You're in good shape, but keep an eye on your budget and your financial priorities. Don't let credit use get out of hand and watch impulse spending. Use the charts on pages 12, 13 and 14 to find out how your expenses compare to your income. Pay particular attention to the section on smart credit use.

3-6: You could be headed for financial trouble. You need to get your spending under control immediately. If you don't have a monthly budget, draw one up and follow it. Turn to the charts on pages 12, 13, and 14 to figure out where you stand financially. Put away your credit cards and cut out all unnecessary spending until you can answer "no" to all or most of the questions on the Financial Fitness Test.

7 or more: This is a wake-up call. You are likely in serious financial trouble and should get help. Sit down with the budgeting charts in this book and calculate your income and expenses. Once you have an idea where you stand, find a good financial counsellor who will help you identify the problem areas and put together a workable plan to get you financially fit. It may take time, but the pay off is worth it for your peace of mind and financial security. At the back of this book, we have supplied a list of not-for-profit credit counselling agencies. The sooner you call, the better.

Take control of *your finances*



The world is full of temptation

Holidays, new clothes, electronic gadgets, cars, restaurants, new furniture... and the list goes on and on. Should you fix the roof, wallpaper the kitchen, take the kids to the zoo, buy the latest best seller or replace your old watch?

Then there are the financial considerations – putting money into an RRSP, paying down the mortgage or reducing credit card debt. These are just some of the money decisions Canadians constantly face.

While it's tempting to indulge in an extravagance – and save for the future at the same time – it's usually not possible. Of course, there are credit cards, personal lines of credit and even borrowing against the equity in your home. But for many of us, these aren't always the best options.

In fact, without knowing your financial worth and priorities, you may get in over your head financially. On the other hand, an accurate financial picture allows you to plan for the future, whether it's three months or 10 years down the road.

Handling money wisely is a talent few of us are born with. But it is a skill that can easily be learned. The place to start is with budgeting. Let's ask ourselves some basic questions about budgeting...

What is a budget?

Don't be intimidated by the "B" word. It's simply an organized way of managing your finances. A budget can be as simple or as complicated as you allow. Basically, it gives you an overall picture of where your money is coming from, when it's coming in and how it's being spent. Above all, a budget should be flexible, changing according to your circumstances.

Why budget?

We all work hard for our money, so it's natural we want to get the most from it. Budgeting helps us achieve short-term goals like paying the monthly bills, taking a course or paying off a credit card. It's also for longer-term financial goals like buying a home, a car, paying for an education, a wedding, or a holiday. When you take control of your financial affairs, you're more confident about the future.

Who should budget?

Everyone. A budget is key to financial control. It gives you a "snapshot" of where you stand financially and where you're headed. Don't rely on anyone else to do your budgeting – take control of your own finances. Even encourage your children to budget... it makes them realize the value of saving and achieving their own personal goals. Budgeting to buy a new comic book, a mountain bike or pair of roller blades is the ideal way for kids to learn about the value of money and saving.

People

and

their

Money

Knowing Your Values

Typically we spend money based on what's important to us. By understanding our values, we can make the most satisfying decisions.

For instance, are you security-conscious? Is paying down the mortgage, saving for your children's education or your retirement a priority? Do you pay your credit card balance every month? Or are you more concerned with your quality of life today? Do you feel comfortable using some of your savings for a vacation, trading up to a larger home or buying a new car? Are you prepared to borrow to finance some of your goals? Are you a bargain hunter? Or do you impulse shop? Do you buy your groceries in supermarkets, gourmet shops or the corner store?

Take into consideration your values when looking at your spending habits. This will get you thinking about how you spend and how you can perhaps reduce your expenses in the future.

Setting Your Goals

Goals give direction to life and help us acquire those things we may not otherwise have. If you have a family, get each member involved in setting goals. Ask them to list their goals for the next three months, for the end of the year and in three years time. Goals could be long-term or short-term and some will have priority over others. You need to identify which goals are most important and work toward them first. Make sure you put money aside in your spending plan for these goals. If, for example, your goal is to save $2,400 in a year, then you need to set aside $200 a month. To achieve your goal, treat the money as a bill to be paid only to you. Then move on to your secondary goals. Think about any conditions or circumstances that you may have to change in order to meet your goals.

Getting Started

There are many ways to budget – on a day-to-day, week-to-week, or month-to-month basis. The more detailed approach is likely to give you a more accurate picture, but bear in mind that a monthly budget is just fine. If you get paid every two weeks it may just be easier to let your budget follow your pay schedule.

When you create your budget, you can use a spread sheet on your computer or write it on a sheet of paper. We've provided some handy charts to help you calculate your income and expenses. Feel free to photocopy these or make your own charts complete with your unique categories. The quicker you get started, the better.

Figuring Out Your Income

How much money do you have to work with? Using the chart on page 12, calculate your available income based on your take home pay (after taxes and other deductions). Remember your income can come from many sources – salary, tips, pensions, rental property income, social security, social assistance, child support, alimony, commissions or bonuses, interest and investments. If you earn income irregularly, you need to average what you earn to get a monthly income.

Don't count on overtime pay as regular income. Overtime pay can seldom be relied on consistently, so don't include it as income in your budget. Instead use occasional overtime to help contribute to goals.

Where Does Your Money Go?

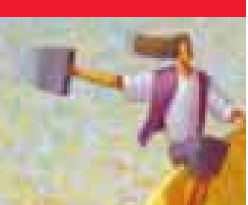
What are your expenses? Remember that if you know exactly where your money is going, only then can you decide if you're spending it wisely. Use the charts on page 13 and 14 to figure out your fixed and variable expenses. Consider the following:

- Fixed expenses: Those bills you have to pay and that tend to be the same amount month-to-month or year-to-year. They include: rent or mortgage payments, insurance, fees for education, car payments, furniture and appliance payments, payments on personal loans and credit cards, taxes for self-employed workers and your savings program.
- Variable expenses: The amounts that vary from month to month and over which you have some control. They include: food, clothing, utilities, transportation, long distance telephone, club memberships, vacations, household supplies, gifts and contributions, personal care, recreation, babysitting, pets, and money for other miscellaneous purchases.
- Your records: Keep well-maintained files that you can review. Include cancelled cheques, credit card statements, receipts and ABM/debit transactions, and bank books.

Creating Your Own Plan

Now you should have a handle on your income and expenses. It's time to put together a spending plan that will help you meet your financial obligations and reach your goals. Remember that your plan is a guideline, so be flexible and always keep in mind what is most important to you.

- Make a note of your fixed and variable expenses. When you total your expenses, they should be equal to or less than your income.
- If your first plan is too heavy on expenses, think about which expenses you can reduce without sacrificing the quality of your lifestyle. Fixed expenses are based on previous spending commitments, so they usually can't be adjusted.



- Look at variable expenses that may be reduced or postponed until a later date.
- Be sure to include an emergency fund. Try to build a cushion of three to six months to help you prepare for the unexpected such as sudden car repairs, unforeseen bills, loss of employment or illness. Setting up a special fund makes sense because not only will you be prepared financially, but you can use such a fund to avoid taking on additional debt.
- Once you have a good estimate of expenses, subtract that figure from your income. The remaining money is what you can use for your savings or goals.
- If your expenses total more than your income, you need to rework your figures or reduce your expenses until you have enough leftover cash to meet your savings target.

Keeping Track of Expenses

Keep a record of expenses to figure out where your money is being spent. By comparing your estimated expenses with what you are actually spending, you can see if your plan is working. It's impossible to keep track of every penny, but you need to know if you are within your spending limits. There are several ways to show what you are spending:

- Save receipts from all purchases.
- Use a chequing account to show where purchases were made, the amount spent and the expense (food, clothing, entertainment etc.).
- Keep track of when you receive money, when it's spent and when bills are due.
- Keep track of credit card statements.

Evaluating Your Budget

Evaluate your spending plan on a regular basis. Is it still helping you meet your needs and achieve your goals? Look at the different categories and decide if you are satisfied with how you're spending your money. Adjust those expense categories that aren't providing satisfaction. As changes occur, you will have to make financial adjustments. At these times it's important to evaluate and perhaps create a new plan. Remember, a budget should be flexible. Your expenses and income will change and so will your budget.

How to Convert Your Income to a Monthly Figure

If you are paid:

- weekly, multiply your net pay* by 4.333
- biweekly, multiply your net pay* by 26, then divide by 12
- semi-monthly, multiply your net pay by 2

If you receive any bonuses or interest:

- annually, divide by 12
- semi-annually, divide by 6
- quarterly, divide by 3

* net pay is your take-home pay after deductions and taxes

Calculating Your Monthly Income

	Total
Salary (after taxes and other deductions)	$
Commissions	
Contracts	
Bonuses	
Tax credit	
Child support/alimony	
Interest income	
Investment income	
Rental income	
Student loan income	
Other income	
Total Monthly Income	$

Monthly Expenses

	Total
Fixed Expenses:	$
Rent/mortgage	
Utilities: (if on monthly payment plan)	
Electricity	
Heat	
Day-care services	
Cable TV/special channels	
Service contracts (cleaning/lawn/snow removal/etc.)	
Monthly Savings and Loan Expenses:	
Regular savings	
Car loan payments	
Other loan/debt payments	
Pre-Authorized Contributions:	
RSP	
Alimony	
Holiday/Christmas fund	
Registered education fund	
Other	
Irregular expenses:	
Taxes:	
Personal income tax (if not deducted at source)	
Municipal tax (if not included in mortgage payments)	
School tax (if not included in mortgage payments)	
Water tax (if applicable)	
Utilities: (if not on a monthly budget plan)	
Electricity	
Heat	
Insurance Premiums:	
Home/tenant	
Automobile	
Life/disability	
Medical	
Car registration	
Driver's licence fees	

Monthly Expenses

	Total
Variable Expenses:	$
Car maintenance and repairs	
Gas/oil	
Parking	
Public transportation/Taxis	
Dining out	
Groceries	
Dry cleaning	
Clothing	
Babysitting	
Home maintenance/repairs	
Telephone (including cellular and long distance)	
Furniture	
Health:	
Medical/Prescriptions	
Dental	
Recreation:	
Newspapers, magazines, books, videos	
Alcohol, beer, wine	
Movies, concerts, plays, etc.	
Recreational/club/court fees	
Pets:	
Veterinary bills	
Pet Food	
Personal:	
Personal care items	
Hairdressing	
Charitable donations	
Gifts	
Vacations	
Spending money	
Miscellaneous	
TOTAL MONTHLY EXPENSES	$
Total Monthly Income:	
Total Monthly Expenses: -	
CASH REMAINING: =	

Beware of these Money Mishaps

- Not knowing your financial worth: If you don't know how much money you have to work with, it's impossible to plan and budget with confidence. Fill out the chart on page 17 to figure out your financial worth.
- Not having a grip on your expenses: If you don't know how much you're spending, it's impossible to stick to a budget or financial plan. You need to figure out your spending habits and start keeping track of where your money goes. Watch impulse buying – it can get you into trouble.
- Not paying off high-cost, high-interest debts first: If you have several debts that are very high-interest, think about consolidating them through a consumer loan or personal line of credit, both of which usually carry a lower rate.
- Over-extending your credit cards: It's easy to get into debt, especially when using credit cards. While it may be tempting to pay only the minimum each month and use the excess cash for other purposes,

try to treat credit card purchases as you would cash purchases. Pay off the balance every month to avoid interest charges.

- Not having an emergency fund: Try to save three to six months worth of living expenses to get you through a financial crisis like job loss or illness.
- Not knowing your goals: What do you want your money to do for you? Figure out what your goals will cost and then plan how to achieve them.
- Not protecting your family with adequate life, medical, property and disability insurance: If you become disabled, you'll need enough coverage to provide 60 to 70 per cent of your family income. See an insurance specialist to make sure you're properly covered.
- Not having an up-to-date-will: Nobody should be without a will – especially if you have dependents. To protect your family and beneficiaries, make sure you have a recent will that has been prepared by a professional. If your will was done more than three years ago, review it; the law or your personal circumstances may have changed since then.
- Poor investing practices: Making all of your investments through one vehicle can be a fatal error – it's better to diversify your portfolio. Don't constantly shuffle your investments looking for the best return. And make sure you carefully assess your tolerance for risk before investing. If all of this is too complicated or time-consuming, think about using a financial advisor.
- Not keeping financial records: Don't keep haphazard financial records. To be prepared at tax time or protect your family if you should die or become ill, you need to keep your financial papers in order. In a safe place, keep a list of investments, banks accounts, credit card numbers and insurance policies, as well as past income tax returns. Do the same with the name of your financial advisor, the location of your will and your safety deposit box.
- Not planning for retirement early enough: Set up a Registered Retirement Savings Plan as early as possible and try to contribute what you can afford. If you make monthly contributions, you are earning interest earlier than if you made a lump sum payment at the end of the year.
- Not having an understanding of available tax benefits: You're missing out if you don't take full advantage of all of the tax credits and deductions available to you. Make sure you're using all of the tax planning tools, including RRSPs and income splitting. Reduce your taxes wherever possible. You may want to see a tax advisor to get you started.

Assets (what you own)

	Total
Chequing account(s)	$
Savings account(s)	
Value of home	
Automobile(s)	
Cash value of life insurance	
Investments:	
Term deposits/GICs	
Stocks, bonds	
RSPs	
Pension holdings	
Other:	
Total Assets	$

Liabilities (what you owe)

	Total
Mortgage (balance outstanding)	$
Income/property taxes	
Car loan (balance outstanding)	
Credit cards	
Personal line of credit	
Other loans	
Other debts	
Unpaid bills	
Other obligations:	
Total Liabilities	$

Net Worth

Assets	
Minus (–) liabilities	-
Net Worth	$

Managing Credit

Part of personal money management is using credit. Credit is part of virtually everyone's financial reality. In order to buy a home, a car, an appliance, take a holiday or even invest, many of us must borrow. The advantage of credit is that we can enjoy new purchases today that we don't have to pay for until tomorrow.

Just as credit can be an asset to our lifestyles, if not handled carefully it can become a liability. Credit cards, in particular, are so convenient that we can easily get out of hand with our spending. Although "putting it on plastic" feels as if real money weren't involved, you are borrowing. In fact, if you don't pay off your balance every month, you can be charged interest.

Credit can be good or bad. It's how you handle it. Before you decide on credit, carefully consider all of the factors and weigh them against your personal needs and values. Only then can you make a balanced decision.

Applying for Credit

Whether it's a credit card, a car loan, a mortgage or a line of credit you're applying for, there are some basic guidelines you should follow:

- Know your income and expenses ahead of time and have a detailed statement of your net worth. See charts on pages 12, 13, 14 and 17.
- Make sure you have a good credit rating. (See Building a Good Credit Rating, page 24).
- Give yourself some time to apply before you actually need the credit. That way you can shop around for the best rates and conditions. For instance, why not get a pre-approved mortgage before you put an offer in on a house. That way you are sure how much you'll be able to afford.
- Read and understand credit application forms before you sign them. Don't be afraid to ask questions if you don't understand something.
- Provide copies of your last T-4 slip or a letter from your employer stating your annual earnings.
- Give details of any assets and their value (your home, savings accounts, bonds, stocks, term deposits and insurance policies).
- Give details of expenses and money owed. Provide a copy of your annual mortgage statement if you have a home; statements showing any outstanding balances on credit cards; information on loan balances.
- Try to match your borrowing to your purpose. For example, use short-term credit for consumer goods, medium-term for vehicles and long-term for homes. Don't use a more expensive form of credit than is necessary.
- Be realistic about the amount you want to borrow. Be willing to discuss alternatives if the lender can't totally accommodate you.

Security for Loans

Sometimes your signature is enough to get credit. Other times, you may need to offer tangible assets – real estate, stocks and bonds or durable goods such as a car. Offering tangible security allows you to borrow more and the rate of

interest you pay may be lower. Remember that when you offer such security, you risk losing it if you don't meet your obligation to repay your loan. Please note that the type of security you may offer varies with provincial legislation.

Two popular types of secured loans are the chattel mortgage and the collateral mortgage. With a chattel mortgage you provide movable property as security. If you don't pay the loan as agreed, the lender can legally take possession of the property you have used as security. The collateral mortgage is a means of using equity in real property such as a house, as security for a loan. Equity is the difference between what you could sell the property for and what you still owe on it. Using the equity may help you get a better rate or a larger loan.

How You Pay for Credit

You pay for the cost of credit through interest. Loan interest rates may be fixed or variable. Fixed rates remain the same for the period covered by the loan, while variable rates change with market conditions. The interest rate of a variable loan is usually tied to an indicator such as the bank's prime rate. The loan agreement states how often, when and how much rates may change.

For instance, a variable mortgage rate amortized over 20 years with a five-year term may have the same monthly payments for five years. The interest rate will vary according to the bank's prime rate on the first day of each month. These differences will affect the principal balance – lower rates mean more of the principal is paid off, while higher rates mean the principal is paid off more slowly.

What the lender charges depends on many factors, including the cost of money, the risk involved and other costs of doing business. The difference between what the lender pays to borrow money and what the lender charges you for a loan is called "the spread." This money is expected to cover operating costs and provide the lender with a reasonable profit. The risk of non-repayment is another important factor for the lender. The degree of risk also helps dictate the interest rate charged by the lender. This is why interest on unsecured loans like credit cards is higher than on secured loans like mortgages.

Borrowing will cost you less in the long term if you can make extra payments of any amount or if you can pay off your loan sooner.

What Are Your Credit Options?

In today's financial world, there are many types of credit available to you. Look at different options – some may be better suited to your needs. The following list is an overview of what is available. Keep in mind that each one has its own benefits and drawbacks. Talk to your financial institution to get more details.

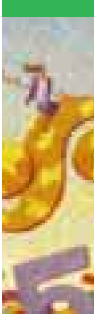
- Credit cards: Choosing a credit card used to be simple. Today, there are over 600 issuers of credit cards in Canada. The different cards offer a variety of options, so it's important to have a good understanding of their features and costs before you sign up. What are the interest rates? If you pay your balance in full each month, this won't matter. Do they charge an annual fee? Are you looking for extras? You can get cards that range from no-frills, low-interest to premium cards, offering such extras as affinity programs, insurance, discounts on purchases, and support of charity and not-for-profit groups. Many cards have loyalty programs allowing you to collect points towards a trip, car or other goods and helping you get more for your money.

  Some financial institutions offer all-purpose credit cards like VISA, MasterCard and American Express. They can be used to extend payment for the purchase of goods and services over time. If full payment is made each month, there are no interest charges. However, if you take a cash advance on your credit card, you are charged interest from the moment you make a withdrawal until the money is paid back.

  Other cards include enRoute/Diners Club, Carte Blanche and those issued by retailers and oil companies. Interest charges and credit limits vary. Some charge cards have loyalty programs similar to those offered by bank cards.

  Retailer charge accounts are usually offered by retailers in several forms such as the 30-day account which requires payment within 30 days, the installment plan charge (equal payments including interest are made for a specified number of months) and all-purpose accounts (payments made in full or over a period of time).

- Personal line of credit: This is a pre-established credit limit that can be used at any time as needed. Often secured against pledged assets, it is generally offered at lower interest than a credit card. Payments can be made in fixed amounts, varying amounts or interest only.
- Overdraft protection: For a limited period, the financial institution will cover a customer's short-term cash shortage in his or her account.



In addition to offering convenience, overdraft protection prevents a potential blemish on the customer's credit rating by covering NSF (non sufficient funds) cheques. There is usually a charge for this service.

- Personal/consumer loans: There are many options here because the term, repayment and interest rates of loans vary. Credit history, collateral and the financial institution offering the loan also have a bearing. Personal loans can be obtained from banks, trust companies, credit unions/caisses populaires (depositor-owned savings and/or lending institution), finance companies and even life insurance companies if you have a policy. They include installment loans, demand loans, life insurance loans, property mortgages and conditional sales contracts.
- Term/Installment loans: It's money advanced for a specific purpose such as a car or vacation in return for regularly scheduled payments. It may be secured or unsecured and interest rates vary depending on market conditions. Installment loans may be fixed (the term and interest are set and don't change) or variable (the interest you pay varies with changes in the prime lending rate.)
- Demand loans: These are sometimes obtained from financial institutions. The rate of interest is generally not fixed, but tied to the prime lending rate. Repayment may be required by the lender or made by the borrower at any time.
- Life insurance loans: This is money borrowed from an insurance company against the cash surrender value of a life insurance policy. The face value of the policy is then reduced by the amount of the loan until it is repaid.
- Residential mortgages: This is usually a long-term loan primarily for the purpose of buying a home. Financial institutions offer many repayment options designed to suit the needs of the borrower.
- Reverse mortgage: Sometimes called an equity conversion or a home income plan, the reverse mortgage is an insurance company product, now being offered by many financial institutions. Here's the concept: you take out a mortgage on your home and the proceeds are used to buy an annuity that provides you with an income source. You can also opt for a lump sum payment. The income is not taxable. The benefit is that you continue to live in your home. Because you have not sold your home, you benefit from appreciation in its value. The reverse mortgage works well for retired homeowners who need to supplement their income.

- Home equity financing: You can use the equity you have built up in your home as security for your borrowing needs. The more you've paid down the mortgage on your home, the more you can borrow.
- Conditional sale contracts: These loans are usually offered through retailers. When you make a purchase, a conditional sale contract and a promissory note are signed. The contract and note may then be sold by the retailer to a lender (financial institution). You then make your payments to the lender.
- Leasing: This is a form of term loan because you make regular payments at a rate of interest. Unlike a loan, it's really a long-term rental. At the end of the lease, you don't automatically own the product – you have the option to buy it at its residual value.

To Borrow or Not to Borrow?

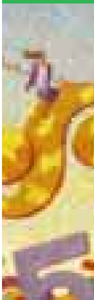
Sometimes our reasons for borrowing are more emotional than practical. That's why it's always a good idea to think carefully about your need to borrow. Ask yourself the following questions:

Is it worth the cost I will actually pay by the end of the loan?
Credit costs money in the form of interest, so remember that to get the true cost of your loan, you need to add on the interest charges. Whenever you use credit, ask yourself if the price you're paying is worth it. Is the purchase something you really need or something you want?

What if my financial situation changes during the course of the loan?
Before borrowing, think about your income, job stability and savings. Consider your expenses. Can you reasonably estimate your costs for the period of time you'll need to repay the debt? Do you have any savings set aside in case of an emergency? On the positive side, if your situation improves during the term of your loan, consider paying off your debt quicker to save on interest charges.

What impact will my decision to borrow have on my family?
Make sure you discuss your plans with your family. Talk about what you all need, what you want and what you consider important for a good quality of life.

Can I afford credit?
Be sure of your monthly income and don't underestimate your expenses. Keep in mind that most lenders suggest you use no more than 10 to 15 per cent of your take home pay to pay back debt. This does not include mortgages. Borrow wisely and within your means. Take a look at the Monthly Income and Expense charts on pages 12, 13 and 14.



Smart Credit Use

Once you get credit, you still need to think about how to best make it work for you. Consider credit a tool to help you reach your goals. As a rule:

- Watch impulse buying. Ask yourself if you'd still buy an item if you were paying cash.
- Credit is still money, so compare price and value when you're shopping for an item.
- Don't use too many credit cards. Do you really need all of those cards?
- Keep track of all credit card purchases and compare your receipts against monthly statements.
- When you're buying a vehicle, pay attention to loan prices. Make as large a downpayment as possible and weigh the cost of borrowing against using more of your savings for the purchase. Maybe you shouldn't hang onto a GIC that's earning 3 per cent and sign up for a car loan with a rate of 8.5 per cent. That's not to say that you should cash in your savings for a vehicle. You should always maintain a financial cushion for the unexpected.
- For Canadians, the biggest purchase in their lifetimes is usually a home. The mortgage market is very competitive and it pays to shop around for the best terms and interest rates. Explore the variety of ways to pay down your mortgage faster – lump sum payments at renewal, shortening your amortization period and doubling up on payments. Don't forget, making the largest downpayment possible can take years off your mortgage.

Building a Good

Your credit rating is a measure of your credit-worthiness or in other words, your record of borrowing and repayment. Without a credit rating, few institutions will lend you money.

Governed by provincial laws, the credit bureau – the clearinghouse of information on consumers' use of credit – provides a credit history, which is a list of facts about how you handle debt. This information is gathered from financial institutions, retailers and other lenders. Most of your credit information remains on your file for seven years.

Always look at your mortgage as a living document. Take stock at renewal time to revisit the terms and discuss with your mortgage holder whether you're comfortable with those terms. Don't be afraid to alter the arrangements to your benefit – for instance, why not try and negotiate 1/4 per cent off your mortgage rate?

- Be careful of co-signing or guaranteeing a loan on behalf of others. You could end up paying off the loan if the borrower can't handle it.
- Pay off your credit card balance in full every month. It's a smart move that 55 per cent of Canadian bank credit card customers make every month.

Checking Your Credit Rating

As a consumer, it's your right to know your credit rating. Credit can be denied based on inaccurate or insufficient information. You may want to check your file if you aren't sure of your credit rating, if you are refused credit or if you plan to apply for a large amount of credit such as a mortgage. You can get a copy of your credit report through one of the many credit bureaus across Canada for free or for a nominal charge.

Here are some guidelines:

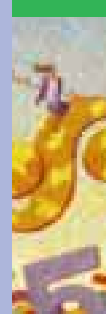
- Contact your local credit bureau, which you can find in the yellow pages.
- Call to find out how you can review your file. You'll be asked to provide identification to ensure the confidentiality of your file. A written report may take two to three weeks.

Credit Rating

In addition to negative information, positive information is also reported on your file.

Here is how to build a good credit rating:

- Pay your bills promptly, especially credit cards.
- Borrow only what you need and what you can afford.
- Try to pay off loans on time and as quickly as possible. Not only does it help your credit rating, you also save valuable interest costs.



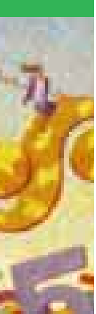
- If you notice any errors and can offer written proof, your file will be changed immediately. If you can't supply written proof, give the facts to the credit bureau which will then investigate. If your facts are confirmed, your file will be updated.
- If you see an error but proof cannot be found, what happens next depends on where you live. Each province has its own legislation relating to credit bureaus. The information you are challenging may be taken off your file or a note may be added, saying the information is "in dispute".
- If an error has been corrected, the credit bureau must notify members who have inquired about you during previous months (as required by provincial law).

Dealing with a Credit Crisis?

Chances are you have a credit problem if you:
- can't make your minimum monthly payments on your credit cards,
- take cash advances for living expenses,
- aren't sure how much you owe and
- never seem to be out of debt.

Here are some tips to help you recover:

- Put away all of your credit cards.
- If you have several debts, consider consolidating them into one consumer loan. You'll save on the interest rate alone, especially if your debt is from credit cards.
- If slow payments are affecting your credit rating, consider contacting your creditors to see if you can make alternative arrangements. Be honest with your creditors. Let them know you're in difficulty and work with them to find the best way to meet your financial obligations.
- Try and figure out how you got into debt and stick to a plan to prevent it from happening again.
- Re-evaluate your spending habits and lifestyle.
- Seek the advice of a credit counsellor if you can't sort things out yourself. There are several not-for-profit credit counselling agencies across Canada. An experienced counsellor will sit down with you to look at your situation, discuss your options and help you develop a course of action.
- When you begin to recover financially, consider keeping only one credit card. It will be easier to track your spending and you won't have the collective credit limit to tempt you.



Appendix

Not-for-profit credit counselling agencies

The following not-for-profit organizations provide a range of credit counselling services.

British Columbia

Credit Counselling Society of British Columbia
Toll Free: 1-888-527-8999 (only in BC)
Tel: 604-527-8999 Fax: 604-527-8008

Debtors Assistance Branch
Ministry of Attorney General
Toll Free: 1-800-663-7867 (only in BC)
Victoria Tel: 250-387-1747, Fax: 250-953-4783
Burnaby: Tel: 604-660-3550, Fax: 604-660-8472
Kamloops: Tel: 250-828-4511, Fax: 250-371-3822

Alberta

Credit Counselling Services of Alberta
Toll free 1-888-294-0076 (only in Alberta)
Calgary:
Tel: 403-265-2201, Fax: 403-265-2240

Edmonton:
Tel: 403-423-5265, Fax: 403-423-2791

Saskatchewan

Department of Justice, Provincial Mediation Board
Regina:
Tel: 306-787-5387, Fax: 306-787-5574

Saskatoon:
Tel: 306-933-6520, Fax: 306-933-7030

Manitoba

Community Financial Counselling Services
Tel: 204-989-1900 Fax: 204-989-1908

ONTARIO
Ontario Association of Credit Counselling Services
Tel: 1-888-7IN-DEBT (746-3328) Fax: 905-945-4680

QUEBEC
Fédération des associations coopératives d'économie familiale du Québec
Tel: 514-271-7004 Fax: 514-271-1036

Option-consommateurs
Tel: 514-598-7288 Fax: 514-598-8511

NEWFOUNDLAND & LABRADOR
Personal Credit Counselling Service
Tel: 709-753-5812 Fax: 709-753-3390

PRINCE EDWARD ISLAND
Department of Community Affairs
Consumer, Corporate and Insurance Services
Tel: 902-368-4580 Fax: 902-368-5355

NOVA SCOTIA
Port Cities Debt Counselling Society
Tel: 902-453-6510

Access Nova Scotia
Department of Business and Consumer Services
Tel: 1-800-670-4357 (only in Nova Scotia) Fax: 902-424-0720

NEW BRUNSWICK
Credit Counselling Services of Atlantic Canada, Inc.
Toll Free: 1-800-539-2227 (only in New Brunswick)
Tel: 506-652-1613 Fax: 506-633-6057

Consumer Services Officer
Consumer Affairs Branch, Department of Justice
Tel: 506-453-2659 Fax: 506-444-4494

Family Services of Fredericton Inc.
Tel: 506-458-8211 Fax: 506-451-9437

YUKON
Contact Consumer Services for referral
Tel: 867-667-5111 Fax: 867-667-3609

NORTHWEST TERRITORIES
Consumer Services
Municipal and Community Affairs
Tel: 867-873-7125 Fax: 867-920-6343

As part of the program Building a Better Understanding, we are offering a free series of publications, ranging from money management and interest rates to mortgages, starting a small business and saving for your children's education. To obtain copies, call toll-free 1-800-263-0231 or visit our web site at www.cba.ca.

The Canadian Bankers Association, established in 1891, is a professional industry association that provides its members – the chartered banks of Canada – with information, research and operational support, and contributes to the development of public policy on issues that affect financial services. The CBA also provides information to the public on industry and financial issues.

CANADIAN BANKERS ASSOCIATION

Building a Better Understanding