

Part 2 – Understanding Credit And Your Credit Report



What Is Credit?

(Developed by Z. Omarali, Toronto District School Board)



50% of Canadians do not know what factors contribute to a credit rating.

The Financial Consumer Agency of Canada 2006 General Survey on Consumer's Financial Awareness, Attitudes and Behavior

Buy Now & Pay Later!

When you hear the phrase “Buy Now and Pay Later” that is exactly what it means, you can buy something now and pay for it at a later time – this is buying on credit. When you want to purchase an item or service but you do not have the cash available to immediately pay for it you can try to purchase it on credit.

Credit is the granting of money by a financial institution/retailer in exchange for a promise to repay at some time in the future. Credit can be given in different forms including credit cards or loans. But remember, there is a cost to credit and that cost is interest. Interest is charged on the balance you owe every month if you don't repay your loan in full. The interest charge cost can be as much as 24% per year or 2% per month if you don't pay the monthly balance.

Credit Cards

Stores and banks will give credit cards to consumers. When you pay for goods and services with these credit cards, the companies will send you a monthly credit card statement that you are expected to pay. You can choose to pay the minimum amount or the full total of your balance. However if you choose to pay the minimum balance on your credit card, you will be charged interest on the remaining balance.

Credit Rating - Good versus Bad?

If you own and use a credit card, you will have a credit file. Your credit file is like a financial report card. It is a record/history of how much money you borrow, and how quickly you pay it back. Your credit history is used to determine your credit rating and credit score. The credit rating looks at how you pay your bills; while your credit score is a rating/measure of your financial health at a set point in time. The higher your credit score, the more likely you are to get a loan.

A good credit rating means that you paid your debts both in full and on time. But a bad credit rating means that you do not make your payments on time or in some cases you do not pay your debts. This indicates that you cannot manage your money and to financial institutions, that means that you may be too risky to loan money to because it is highly unlikely that you will pay off your debts.

If you want to rent an apartment the landlord may request a credit report on you. If you have a bad credit rating your application could be rejected. If you want a loan to purchase a car, a bad credit rating may prevent you from getting that loan or it may mean you pay a higher interest rate. Your credit rating is used to judge how responsible you are with money.

Remember, your credit rating follows you everywhere. As a young consumer you are responsible for managing your own money and debt. Think about your credit rating and remember to pay your bills on time - it is all up to you!

1. What happens when you don't pay off your credit card statement in full?
2. What does it mean when you have a good credit rating?
3. What are some advantages of a good credit rating?
4. What can happen if you have a bad credit rating?

Internet Exercise

1. Review Industry Canada - Publications: Dealing with Credit; You & Your Money; A Roof Over Your Head; In the Driver's Seat; Shopping for Satisfaction

http://strategis.ic.gc.ca/epic/site/oca-bc.nsf/en/h_ca02227e.html

How Do Credit Cards Work?



1. You present your credit card to the cashier.
2. The merchant gets electronic authorization for the purchase and records your card on a purchase statement.
3. You sign the statement of purchase and receive a copy as a receipt.
4. The financial institution or retailer sends you an invoice or statement listing your purchases, the amount owed, and the due date.
5. You pay the financial institution or retailer on time.

Review the Buy Now & Pay Later statement and answer the questions below:

Buy Now & Pay Later

Credit Card Statement
First National Bank of Ontario

Name: Raj Smith
Statement: September, 29, 2007
Account Number 6230 0100 0156 8219

| | |
|-----------------------------|----------------------|
| This Month's Payment | \$10.00 |
| + Past Due Amount | 0.00 |
| = Minimum Payment | \$10.00 |
| Payment Due Date | October 20/07 |

| Last Statement | Previous Balance | Total Purchases | Total Cash Advance | Interest Charged | Total Payments | Statement Balance |
|----------------|------------------|-----------------|--------------------|------------------|----------------|-------------------|
| August 29 | \$43.52 | \$75.14 | 0.00 | 0.00 | \$43.52 | \$75.14 |

| Date of Purchase | Description of Purchase | Amount |
|------------------|---------------------------------------|---------|
| August 30 | Stationary Discount Store Toronto | \$28.69 |
| September 14 | Computer Software Store Richmond Hill | \$21.23 |
| September 27 | Fashion R Us Barrie | \$25.22 |

| Interest Rate Information | Credit Limit |
|---------------------------|--------------|
| 18.0 % per year | \$1,000 |

1. What was the period during which the purchases were made?
 - a) How many days are in this payment period?
 - b) What was the total amount of purchases made during the statement period?
 - c) What is the minimum amount that must be paid by the due date?
2. If interest rate was calculated using the following formula:

$$\text{Interest charges for month on overdue balances} = \frac{\text{Interest rate per year}}{12} \times \text{Balance owed}$$

- a) What is the yearly interest rate charged on overdue balances?
- b) What is the monthly interest rate charged on overdue balances?
- c) What is the total amount of interest paid if you forgot to make the payment owed to the credit card company?

Internet activity:

View the video clip, Get it on Credit at www.getsmarteraboutmoney.ca

The Credit Report – Your Financial Responsibility Report Card

(Adapted with permission from the Toronto District School Board)



Did you know? When you are granted credit from a lending institution such as a bank or credit card company, a credit file/report is kept on you.

Your credit file or report is like an ongoing financial responsibility report card of your actions. A credit report/file keeps track of your financial responsibility from the number of missed payments on a loan to the number of loans you have received. So it is important to know that how/when you pay your account(s) will affect your financial future. Your credit reports track your financial responsibility skills from today to the last six years.

Every month creditors send information about each person's account to the credit bureaus. A credit bureau is a company that collects and gathers individual consumer credit information and then sells the information, in an organized form, back to the credit grantors. In most provinces, the credit bureaus are regulated by the consumer ministries.

The two credit bureaus in Canada are Equifax and TransUnion. The information they compile on an individual's debt is called a credit file or credit report. Credit grantors (e.g. banks or credit card companies) can access your credit files online and see how much, and to whom you owe, and whether you have made payments on time or late payments. Credit grantors can then use this information to determine whether or not they will approve a credit application.

Only members of the credit bureau like major creditors including banks or those you give permission to can access your credit files. But did you know that landlords or potential employers may also have access to your credit file? Suppose you want to rent an apartment and the landlord runs a credit check on you. If you have a bad credit report because you pay your bill late then your application to rent that cool apartment will probably be rejected. So it is essential that you know and understand the impact of your credit track record and pay your bills on time resulting in a good credit report.

The manner that this information is presented may differ among each credit bureau, but the information is essentially the same. Your credit files also contain basic information such as name, address, telephone number, birth date, social insurance number and employment history.

Consumers can obtain a free copy of their credit file by providing appropriate identifications and request forms to the Canadian Credit Bureaus:

Equifax – www.equifax.ca;

TransUnion – www.transunion.ca;

1. List the two main credit bureaus in Canada.
2. What information can you find in a credit file?
3. Who regulates the credit bureaus?
4. Who can view a consumer's credit file?
5. What does your credit file tell us about you?

Features and information on a credit file:

Credit ratings: indicate how you have paid a debt, on time or late. Each debt is assigned a credit rating on a scale from 0 to 9. Credit ratings appear on your credit file for six years from the date reported.

Balance: the amount you owe on a debt at the time the creditor reported to your credit file.

Inquiries: are the names and telephone numbers of all the creditors who have viewed your credit file over the last 4 years.

Registered Lien: a claim the creditor has registered against property you have listed as collateral. A lien enables a creditor to repossess the property if the debtor does not pay as agreed. An example is a lien registered against a car by the creditor who granted the car loan.

Judgements: Court orders obtained by a creditor when a debtor does not pay as agreed.

Analyzing A Credit Report

EQUIFAX

CONSUMER RELATIONS

P.O. BOX 190 STATION JEAN TALON MONTREAL QUEBEC H1S 2Z2

JANE DOE
10 PLEASANT ST.
TORONTO ONTARIO
M2N 1A2

CONFIDENTIAL INFORMATION
NOT TO BE USED FOR CREDIT PURPOSES
RE: EQUIFAX UNIQUE NUMBER: 3140123054

Dear JANE DOE,

Further to your request, a disclosure of your personal credit file as of 03/27/01 follows:

PERSONAL IDENTIFICATION INFORMATION:

The following personal identification information is currently showing on your credit file.

DATE FILE OPENED: 07/04/92

NAME: Doe, Jane
CURRENT ADDRESS: 10 PLEASANT ST. TORONTO, ON
DATE REPORTED: 12/96
PREVIOUS ADDRESS: 2 AVENUE ST, TORONTO, ON
DATE REPORTED: 12/93
PRIOR ADDRESS: 3 DU BOULEVARD, MONTREAL, PQ
DATE REPORTED: 07/92

BIRTH DATE/AGE: 10/05/1963/33
SOCIAL INSURANCE NUMBER: 123-456-789

OTHER REFERENCE NAMES:
CURRENT EMPLOYMENT: EDITOR
PREVIOUS EMPLOYMENT: TRANSLATOR
PRIOR EMPLOYMENT: CHEF
OTHER INCOME:

SPOUSES NAME: JOHN
SPOUSES EMPLOYMENT: CHEF

CREDIT INQUIRIES ON YOUR FILE:

Following is a list of Equifax members who have received a copy of your credit file for credit granting or other permissible purposes. Addresses are available by calling Equifax at 1-800-465-7166.

| DATE | REQUESTOR NAME | TELEPHONE |
|----------|------------------|----------------|
| 03/02/00 | CANADA TRUST MTG | (416) 361-8518 |
| 02/22/00 | TD BANK | (800) 787-7065 |
| 01/16/00 | BQE NATIONALE | (450) 677-9122 |

The following inquiries are for your information only and are not displayed to others. They include requests from authorized parties to update their records regarding your existing account with them.

| DATE | REQUESTOR NAME | TELEPHONE |
|----------|----------------------------------|----------------|
| 03/23/00 | SOC ALCOOLS (not displayed) | (514) 873-6281 |
| 03/22/00 | CANADA TRUST MTG (not displayed) | (416) 361-8518 |
| 02/16/00 | CMHC SCHL (not displayed) | (888) 463-6454 |
| 01/16/00 | AMERICAN EXPRESS (not displayed) | (416) 123-4567 |

CONSUMER INTERVIEWS AND OTHER SERVICES:

You contacted our office in 12/98 to request a review of your credit file.

CREDIT HISTORY AND/OR BANKING INFORMATION:

The following information was reported to us by organizations listed below. Information is received every 30 days from most credit grantors.

GMAC last reported to us in 01/01 rating your installment account as I1, meaning paid as agreed and up to date. The reported balance of your account was \$1000. Your account number: 23456789012345. The account is in the subject's name only. Date account opened: 04/99. Credit limit or highest amount of credit advanced: \$4400. DATE OF LAST ACTIVITY meaning the last payment or transaction made on this account was in 12/00. Additional comments: auto loan. Monthly payments.

CANADA TRUST MC last reported to us in 01/01 rating your revolving account as R1, meaning paid as agreed and up to date. At the time the reported balance of your account was \$285. Your account number: xxx...234. Date account opened: 06/99. Credit limit or highest amount of credit advanced \$2000. DATE OF LAST ACTIVITY meaning the last payment or transaction made on this account was in 12/00.
PREVIOUS PAYMENT STATUS:
30 DAYS: 1 time (s) account previously R2 meaning one payment past due

PUBLIC RECORDS AND OTHER INFORMATION:

The following information was reported to your file on the date indicated.

A COLLECTION was assigned in 10/96 to Commercial Credit by Transamerica Financial in the amount of \$2675. Date reported paid: 07/97. Collection status: PAID. DATE OF LAST ACTIVITY was in 04/96. Collection agency reference number: 222222.

A JUDGEMENT was FILED IN 01/96 in Min Govt Serv. Plaintiff and/or case number: Chrysler Canada 4444. Defendant/other info: joint with Dossier. Amount reported: \$7525. Status reported: Satisfied. Date satisfied: 09/97.

1. What is Jane Doe's current employment?
2. How old was she when her credit information file was first "opened"?
3. Which Equifax members received a copy of Jane Doe's credit file for credit granting or other permissible purposes?
4. How can you get the addresses of these companies?
5. On the first occasion Jane Doe did not pay on a debt, a collection agency was assigned to collect money from her. What was the name of the collection agency assigned to Jane Doe?
6. As of today, what is the status of this collection?
7. How much did Jane Doe owe Chrysler Canada when the case went to court?
8. Who made Jane Doe pay the loan off? What do you think this did to her credit rating?
9. When was this Credit Report generated? How many years have passed since the incident with Chrysler and when this particular Credit Report was generated?
10. What advice do you have for Jane Doe to keep her in "good" credit standing?

Translating The Credit Code

Your guide for using the common language for consumer credit

Analyzing the Ranking Categories and types of Debt to be Paid

O = Open account (personal lines of credit e.g. Royal Bank Personal Line of Credit)

R = Revolving account (credit card accounts e.g. MasterCard, Visa)

I = Instalment (loans e.g. payments on a car loan)

| Usual manner of payment | O | R | I |
|--|----------|----------|----------|
| Too new to rate; approved but not used | 0 | 0 | 0 |
| Pays (or paid) within 30 days of billing; pays account as agreed | 1 | 1 | 1 |
| Pays (or paid) in more that 30 days, but not more than 60 days, or not more than one payment past due | 2 | 2 | 2 |
| Pays (or paid) in more that 60 days, but not more than 90 days, or not more than two payment past due | 3 | 3 | 3 |
| Pays (or paid) in more that 90 days, but not more than 120 days, or not more than three payment past due | 4 | 4 | 4 |
| Account is at least 120 days overdue but is not yet rated "9" | 5 | 5 | 5 |
| Making regular payments under a consolidation order or similar arrangement through a third party | 7 | 7 | 7 |
| Repossession (indicates if it is a voluntary return of merchandise by the consumer) | 8 | 8 | 8 |
| Bad debt; placed for collection; skip | 9 | 9 | 9 |

What does code 11 mean?

- 1 indicates it is loan; 1 means the account was paid as agreed.

An 11 rating on a credit report would indicate that you can manage your money and pay as agreed.

1. What does R1 mean?
2. What does R2 mean?
3. What does 04 mean?
4. What does I8 mean?
5. What does R9 mean?
6. Which rating would you prefer R1 or R2, why?

Basic Rules Of Money Management



Although maintaining a good credit rating is clearly one of the most important ways to secure a healthy financial future, it is also essential to acquire the skills necessary to practice good money management in order to ensure that we meet our financial obligations and goals. By practicing the following basic rules of money management you can confidently control your personal finances and your future:

- Plan for periodic and major expenses such as tuition or purchasing a car.
- Set short, mid and long-term financial goals.
- Create a realistic budget by knowing your income and tracking your expenses.
- Distinguish between needs and wants.
- Don't allow your expenses to exceed your income.
- Save 10 to 15% of your net income.
- Pay your bills on time.
- Use credit wisely by including debt payments into your monthly budget and pay the balance in full every month to avoid interest charges.

Keep in mind that use of technologies such as online banking, debit and credit cards are tools that allow you to more easily conduct your financial affairs. By following the fundamental principles of good money management, you will be able to secure a successful and rewarding financial future.

6 Ways to Maintain Good Credit

1. Pay your bills on time. If you are unable to pay your bills as agreed, contact your creditors and explain your situation. Contact a local non-profit Credit Counselling Service for unbiased professional advice.
2. Don't sign a credit contract until you have read it and understood it. If you don't understand it, ask questions until you are satisfied.
3. Never sign a blank sheet. Your signature is your promise to pay and a contract is a legal document. Know the implications.
4. Try to pay off any debt quickly. Avoid those prolonged low monthly payments and avoid having to refinance at high interest rates.
5. Deal with known, respected and established companies and make sure you understand the total cost of your purchases.
6. Avoid signing up for extra credit cards that you do not need.