
CREDIT AND DEBT

OVERVIEW

Students will:

- review the credit card statements of their Life Stage Characters
- discuss the principles of consumer credit
- calculate the cost of paying a hypothetical credit card bill
- review the use of credit and debt in their transition from secondary school
- review fraud and other risks related to credit

By examining typical forms of consumer credit, students learn how they can use credit responsibly in their transition from secondary school.

CURRICULUM AREAS

Use this module to teach Learning Outcomes in curriculum areas such as:

- Personal Finances
- Applications of Math, Consumer Math
- Consumer Studies

For a detailed listing by province/territory and course, refer to Learning Outcomes on the educator pages at www.fcac.gc.ca, Educational Programs > The City.

OUTCOMES

Following this activity, students will be able to:

- describe credit as a loan with specific conditions
- calculate the cost of purchases made on credit
- describe how credit and debt could affect their transition from secondary school
- identify and avoid risks related to credit

MATERIALS AND TOOLS

- Credit card statements and other credit and debt documents for the eight Life Stage Characters
- Overhead transparency of one of the credit card statements (optional)
- Copies for each student of Story 7-1, Credit and Debt (optional)
- Copies for each student of:
 - + Handout 7-1, The Cost of Borrowing
 - + Handout 7-2, Borrowing Money and My Future Goals
 - + Handout 7-3, Card Sharps
 - + Handout 7-4, Fraud Squad Incident Report
 - + Handout 7-5, Quick Quiz – Credit and Debt
- overhead projector, if using

IN-CLASS TIME REQUIRED

- two lessons (approximately 1.5 hours)

KEY WORDS

Credit, debt, loan, credit card slip, receipt, statement, bill, interest, principal, annual percentage rate (APR), credit rating, credit check, line of credit, deferred payment plan, mortgage, balance, credit card, prepaid card

SUGGESTED APPROACH

1. Present Story 7-1, "Credit and Debt," to the class. Discuss the story by asking questions like the following:

- Why was Liam concerned after he took out the "quick loan"?
+ *He thought the quick loan was a bad decision because the interest rate was very high.*
- How would Gaia's offer help his situation?
+ *She offered to co-sign a bank loan to get a more reasonable rate.*
- What did the characters need to know at the start of the story? What did they learn at the end?
+ *Liam needed to find a way to manage his high household expenses without taking on expensive debt.*
- What do you want to know about saving money?
- What's something you might need to borrow money for after you graduate from high school?

2. Give students the financial records for their Life Stage Character.

a) Explain that the Life Stage Characters have different types of credit and loans, but the class will look at the credit card statements (or bills) only.

b) If necessary, use an overhead transparency of one of the statements to show the class how to read a credit card statement.

c) Have the groups:

- Use the icon to find the credit card statement for their character.
- Tell the class what items they see on the statements and what the balance is.
- Suggest reasons why their Life Stage Character might have used a credit card.

Records should include:

a) **Luna** (18-year-old university student): student credit card statement

- *Uses for purchases where credit is more convenient than cash*

b) **Nikos** (18-year-old apprentice): credit card statement

- *Uses for purchases where credit is more convenient than cash or when a retailer doesn't take a cheque*

c) **Rio** (20-year-old full-time worker): credit card statement

- *Uses for a variety of small purchases where credit is more convenient than cash, and for online ticket purchases where a credit card is required*

- d) **Sienna** (20-year-old college graduate): credit card statement
- *Uses for purchases where credit is more convenient than cash, and for online purchases where a credit card is required*
- e) **Indigo** (25-year-old university graduate): gold credit card statement
- *Uses for large purchases where credit is more convenient and safer than cash, and for charges while travelling to avoid carrying cash*
- f) **Liam** (25-year-old college graduate): reward credit card statement
- *Uses for purchases where credit is more convenient than cash and for cash advances*
- g) **Zack** (45-year-old consultant): platinum credit card statement
- *Uses for business expenses where credit is more convenient than cash and the statement provides records for bookkeeping*
- h) **Gaia** (45-year-old café owner): credit card statement
- *Uses for large purchases where credit is more convenient and safer than cash or cheques*

3. Ask the class if anyone has a credit card, what it's used for, and how it's like a loan. Explain that:

- When you use a credit card, the credit card company lends you the money to make a purchase. You have to pay that money back, on terms described in the credit card agreement.
- Before agreeing to give you a credit card, the credit card company will check to see if you are a good credit risk. Do you have a regular income and a good track record of paying your bills on time?
- At the end of each month, the credit card company sends you a bill that includes all the credit card purchases you made that month. If you pay off the entire bill promptly on its due date, you will usually not be charged any interest. You will be charged interest, sometimes at very high rates, on any credit card balances that are not paid off right away. If you use a credit card to take out a cash advance, you will be charged interest from the day you take out the money.
- How do credit card companies make money? Usually they charge sellers a percentage (1-1/2% to 4%) of every transaction that is paid for with a credit card. They also charge you interest on cash advances and any amounts that are not paid off promptly at the end of the month. Some credit card companies also charge users an annual fee for having the card.

4. Review the use of debt in financial planning.

a) Have the class discuss reasons for using debt and what the role of debt is in financial planning, using their Life Stage Characters as examples. If necessary, prompt students with questions such as the following:

- What advantages did using credit cards offer the characters?
+ *E.g.: allows payment without carrying cash; allows online and telephone purchases; allows out-of-country expenses; allows emergency cash advance; more convenient than cheques; bills presented in one convenient statement.*

- What are some other forms of credit that are commonly used in Canada?
 - + A loan from a bank or other financial institution that you have to repay on a specified schedule, with interest and sometimes with additional fees
 - + A mortgage is a loan (usually for buying a home) in which the lender can take possession of the property if the loan is not repaid on time.
 - + A line of credit is a type of pre-approved loan that allows you to borrow money when you need it, up to a maximum amount
 - In what ways is the characters' use of debt responsible or irresponsible?
 - + As long as they can pay off their balance each month, their use of debt may be responsible; if they're accumulating debt for unnecessary purchases and aren't able to pay it off, it's irresponsible. In Liam's case, he borrowed a large sum without finding out the interest rate, and ended up with very high charges.
 - + There are different types of credit cards, such as bank cards (Visa, MasterCard, etc.), store cards (The Bay, Canadian Tire, etc.), and travel or entertainment cards (American Express, Diner's Club, etc.). They all have different features, repayment rules and interest rates.
 - How does debt help the characters achieve their education and career goals?
 - + It allows them to manage their payments with convenience, provided they pay the balance each month to avoid interest charges.
- b) Point out that credit cards require at least a minimum payment each month (usually 10% or more of the outstanding balance), and they charge interest on the full balance, often between 10% and 28% per year. Some offer a grace period when no interest is charged. All these details are described in the card agreement.
- 5.** Distribute Handout 7-1, "The Cost of Borrowing." Have students calculate the cost of paying the credit card bill in the example.
- a) Review the students' calculations.
- b) Point out that:
- Interest adds to the cost of a purchase if the credit card bill is not paid by the due date.
 - While credit cards and other forms of credit can be used responsibly to help people achieve their goals, they are loans and have to be repaid.
 - Using credit irresponsibly can seriously interfere with achieving goals.
 - To quickly calculate the cost of interest on a credit card, students can use online calculators like the one on the FCAC website (www.fcac.gc.ca, Resources > Tools and Calculators > Credit Cards Interactive Tools, or the Credit Canada website (www.creditcanada.com/debtCalc.asp).

6. Distribute Handout 7-2, "Borrowing Money and My Future Goals."

Have students:

- Review the information.
- Complete the questions describing how to manage credit in their transition from secondary school.
- Place the handout in their Financial Life Skills binder or portfolio (as described in Module 1).

7. Review the use of credit cards and prepaid cards:

a) Distribute Handout 7-3, "Card Sharps."

b) Have the class review and discuss the issues raised in the case studies. If necessary, prompt students with questions like the following:

- Why were Rachel and David surprised when they found out about their cards?
+ *They did not know the details of the interest charges and fees on the cards they were using.*
- What could they have done to avoid being surprised and paying high financial charges?
+ *Find out the charges directly from the card issuer or visit the credit card interactive tool on FCAC's website (www.fcac.gc.ca, Resources > Tools and Calculators > Credit Cards Interactive Tools); use only cards that they need and that have the best overall rate.*
- What should you watch for to be sure your cards are not a rip-off?
+ *Interest rates higher than other cards of the same type; excessive fees compared to similar cards; a combination of high interest and high fees; difficulty in finding out the terms of the card or in getting your statement.*
- What should you do if you think a card is a rip-off?
+ *Go to financial institutions with a good reputation and good customer service; check with your local credit counselling societies; report questionable tactics to the Financial Consumer Agency of Canada.*

c) Point out that students should always be aware of what they are signing.

- In certain cases, minors can sign contracts (e.g., contracts to buy consumer electronics and other retail products, contracts to rent an apartment, etc.). So students could be responsible for agreements or contracts they sign.
- To learn more about their responsibilities when they sign an agreement, have students review the contract tip sheet on the FCAC website (www.fcac.gc.ca, Resources > Publications > Your Rights and Responsibilities)

d) Distribute Handout 7-4, "Fraud Squad Incident Report." Have students complete the form to describe what the problem in one of the case studies was and how it could have been avoided. (Answers are as discussed in 7 b) above.)

8. Option: Have a speaker from the Better Business Bureau, Credit Grantors Association, Option consommateurs or other organization talk to the class about credit frauds and scams. Invite students to question the speaker about types of frauds and scams that target young people, how to avoid them and where to get more information.

9. Home Connections: Have students:

- Discuss their responses on the Fraud Squad Incident Report with their parents or another adult and modify their responses if needed.
- Write a short report of their discussion.

10. Reflection and summary. Have students individually or in groups:

- Write the three most important things they've learned about credit and debt.
- Review the items students listed with the class.

Points should include:

- *Debt is a form of loan offered under a variety of conditions, including interest and repayment times.*
- *Using debt can have advantages, but it has a cost in the form of interest and other charges.*
- *Different forms of debt may be used at different stages in an individual's life, including credit cards, student loans, lines of credit, deferred payment plans, and mortgages.*

Have students add their list of things they learned and their handouts to their Financial Life Skills binder or portfolio (as described in Module 1).

ALTERNATIVE: Have students make a poster listing and illustrating the pros and cons of taking out loans for a) post-secondary education and b) travel.

EVIDENCE FOR ASSESSMENT

- Monitor the class discussion to ensure students can describe credit and debt as a loan with specific conditions.
- Review the students' calculations to ensure they can calculate the cost of purchases made on credit.
- Review the students' handouts on credit to ensure they can describe ways in which credit and debt could affect their future education and career goals.
- Review students' discussion and handouts on fraud to ensure they can identify and avoid risky credit situations.
- Distribute Handout 7-5, "Quick Quiz – Credit and Debt," and have the class complete the quiz. Correct answers are as follows:
 - 1) Define the words:
*credit card: **Answer:** A card issued by a financial institution that lets you buy things and pay for them later*
*Debt: **Answer:** Money that you owe*
 - 2) Name three advantages of using credit cards.
Answer: Convenient payment; don't have to carry cash; monthly record of purchases
 - 3) Name one disadvantage of credit cards resulting from irresponsible use.
Answer: High debts, high interest charges
 - 4) Which of the following is not an example of a responsible use of credit?
Answer: f) Pay only the minimum amount required on every monthly balance
 - 5) Interest on credit card cash advances is usually charged daily from the date of the advance. (Circle the correct answer) True False
Answer: True
 - 6) List two positive and three negative implications of using debt.
Answer: Positive: you can achieve your goals earlier; you can take advantage of opportunities that might not be around later; building a positive credit rating by using debt responsibly can make financing easier in the future. Negative: interest on debt adds to the cost; you have to budget for regular payments; taking on debt limits your future choices because it will reduce the money you have available for other options; a negative credit rating will limit your options in many ways.
 - 7) Prepaid cards don't charge interest, but may charge _____ .
Answer: Fees

EXTENSION ACTIVITIES

- Have students use online calculators like the one on the FCAC website (www.fcac.gc.ca, Resources > Tools and Calculators > Credit Cards Interactive Tools) or the Credit Canada website (www.creditcanada.com/debtCalc.asp) to find the real cost of purchasing with a credit card.
- Have students research the types of support offered by their provincial government and other agencies for people who have problems managing their debt, and have them present a report on their findings to the class.
- Have students contact a credit bureau to determine whether they have a credit record and what it says.
- Have students review the information needed to complete a student loan or credit card application and complete a sample form as if they were 19-year-olds working part-time and applying to go to a post-secondary institution.
- Have students find examples of credit-related frauds in the media or on the web, prepare a report on types of credit frauds and scams (e.g., fraudulent statements, paycheque loans, excessive interest rates, phishing, identity theft, etc.) and how to avoid them, and present their report to the class.
- Have students review the contract tip sheet on the FCAC website (www.fcac.gc.ca, Resources > Publications > Your Rights and Responsibilities) and report to the class on the key points that young people should know about contracts.
- Have students research and debate the proposition that credit checks are an invasion of privacy.

CREDIT AND DEBT

Health care workers in The City's teeming hospitals are chronically overworked. So at first it seemed like no big deal when a young male nurse wandered into the café, feet dragging, eyes red. He sat down and buried his face in his hands.

"Tough shift, Liam?" Gaia said. Then, when he didn't answer, "What's the matter? It's not the baby, is it? Or Avonel?"

Liam lowered his hands. "No, they're fine. But I just did something really stupid."

"What? Tell me!"

Liam forced himself to look at his aunt. "You know that Avonel and I have been short of money lately. Bills overdue, credit card maxed out. So I went into one of those quick-loan places – you know the ones: 'NO CREDIT CHECK, INSTANT ADVANCE, GET YOUR MONEY TODAY!'"

"Uh-oh," Gaia said. Liam didn't answer. "How much did you borrow?"

"Two thousand. Which covered all our bills and got me caught up."

"Not so bad."

"Yeah – if that was all I owed," Liam said. "I'm paying 24% interest. Plus transaction fees I didn't know about until after I'd signed the papers."

"Twenty-four per cent! That's painful!"

Liam nodded. "I'm sunk. Can't get my hands on any cash – I've got a small term deposit, but I'll pay a penalty if I take it out now, and that'll just make things worse. By the time I pay back the loan, with the interest piling up day after day, I'm gonna end up owing a fortune." He covered his face again.

There was a silence. Then Gaia said, "Listen. We'll go to MetroBank and get you a loan at a better rate. Then you can pay off the cash advance loan. At the lower interest rate, you'll be able to manage the payments to the bank."

"But how am I gonna get a bank loan? I don't exactly have the best credit rating."

"I'll co-sign."

"No way!" Liam protested. "What if I can't keep up the payments, even at the lower rate? The bank'll come after you. They might even sell the café to get their cash!"

"Then I'd finally be free."

"Come on, Gaia, you don't mean that. You love this place!" Liam said.

"OK, maybe I do," she admitted.

"So I can't let you lose it!"

"Then you're not gonna let that happen, are you?" Gaia said.

"Of course not," Liam said.

"Good. Figured you'd be more scared to stiff *me* than the bank."

THE COST OF BORROWING

Name: Class/Block: Date:

So you found a good deal and made a purchase. Should you pay cash or use a credit card? When you use your credit card, the cost depends on when you'll pay it off, and what the interest rate is. *Unless you pay before the due date, credit adds cost.*

Use the example below to calculate how much it costs to use credit:

Martin is starting university and wants a laptop computer. He finds one for \$200 off the regular price – with taxes, it's \$1,498, just below his credit card limit. He has the money in a savings account, but he decides to put the computer on his credit card so he can use his savings for other purchases. When the statement arrives, he doesn't have enough money to pay it, so he makes the minimum payment – 10% of the balance owing, \$149.80. He doesn't pay for the computer for three more months, except for the minimum payment each month.

1. If the annual percentage rate (APR) on his card is 18.9%, what's the true cost of the computer when it's fully paid? (Hint: Work out the monthly interest rate, calculate the added interest, and subtract the payments each month. Use an electronic spreadsheet if you choose, but be prepared to explain the formulas used.)

	Month 1	Month 2	Month 3	Month 4
Balance				
Interest at 1.58% per month (18.9% per year divided by 12 months)				
Subtotal (balance + interest)				
Minimum Payment (10% of balance)				
New Balance Owing (subtotal less payment)				
Final Payment				
Total (final payment + minimum payments + all interest payments)				

2. Calculate the cost of the sum of the items on your character's credit card statement, using the interest rate showing on the statement. Assume that your character makes only the minimum payments for three months.

You can find a variety of credit card cost calculators on the web like the one on the FCAC website (www.fcac.gc.ca, Resources > Tools and Calculators > Credit Cards Interactive Tools) or the Credit Canada website (www.creditcanada.com/debtCalc.asp).

THE COST OF BORROWING – SOLUTIONS

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	Month 1	Month 2	Month 3	Month 4
Balance	\$1,498.00	\$1,348.20	\$1,232.55	\$1,126.82
Interest at 1.58% per month (18.9% per year divided by 12 months)		\$21.30	\$19.47	\$17.80
Subtotal (balance + interest)	\$1,498.00	\$1,369.50	\$1,252.02	\$1,144.62
Minimum Payment (10% of balance)	\$149.80	\$136.95	\$125.20	\$114.46
New Balance Owing (subtotal less payment)	\$1,348.20	\$1,232.55	\$1,126.82	\$1,030.16
Final Payment				\$1,030.16
Total (final payment + minimum payments + all interest payments)				\$1,556.57

Note that this is a simplified example, and actual charges will differ.

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You can find a variety of credit card cost calculators on the Internet, like the one on the FCAC website (www.fcac.gc.ca, Resources > Tools and Calculators > Credit Cards Interactive Tools) or the Credit Canada website (www.creditcanada.com/debtCalc.asp).

BORROWING MONEY AND MY FUTURE GOALS

Name: Class/Block: Date:

Borrowing money can be a good thing or a bad thing, depending on how you handle it. If you borrow wisely, debt is a valuable tool that helps you manage expenses over a period of time. It can be part of a strategy to help you achieve your education and career goals. But if you don't use debt with care, it can threaten your financial future.

So what do you do when your education and career goals are costly, and accumulating enough money to pay for them seems impossible? Borrow carefully! Keep these factors in mind:

TYPES OF CREDIT

There are many types of credit, with different features that make them appropriate in different conditions.

- **Credit cards** provide convenience for purchases or cash for short-term emergencies, but they can become very costly if not paid off quickly.
- **Student loans** charge a lower interest rate. But they can add up to very large amounts, and must be paid off when you leave post-secondary education. Carrying too much debt can seriously affect your future options.
- **Loans or lines of credit** from banks, credit unions and trust companies can pay for large purchases or pay down high-interest loans if you can comfortably fit the payments into your monthly budget.
- **Overdraft protection** is a short-term loan from your bank to cover debits or cheques when there isn't enough money in your account. It's convenient, but adds costs to your transactions.
- **High-cost loans** like paycheque advances or some of the deferred payment plans from retail stores may appear attractive, but they can be very costly. Their very high interest rates and fees can drain away your spare cash.

YOUR RESPONSIBILITIES WHEN YOU BORROW

- Borrow only what you can repay. Be sure you'll have enough income to make the payments when they're due.
- When you borrow money, you're making a legal commitment, so you should understand your credit contract before signing it. If you aren't sure what the contract means, ask the loans officer to explain it.
- Make the payments as agreed. If you run into trouble, don't avoid it – talk to the loans officer and explain the situation.
- Keep your cards, PINs and passwords secure, and check your credit slips and statements. You're responsible for reporting any errors.

BORROWING MONEY AND MY FUTURE GOALS (cont'd)

CREDIT RATING

- Before financial institutions extend credit, they try to assess your **credit rating**. This is a review of your ability to repay a debt, based on your character, income, economic history (employment, previous financial records, etc.), and assets (savings or other property).
- They often check with independent agencies, known as **credit bureaus**, for information about your history with other companies, like telephone companies and banks. Credit bureaus are companies that track people's credit history. With your consent, they share this information with companies you want to do business with. They charge the companies for access to your information.
- You may already have a credit rating! If you buy items online or by mail order or online services, the sellers may send a report to a credit bureau. And if your payments are behind schedule, your credit rating may be low.
- The better your credit rating, the more likely financial institutions will be willing to lend you money. If they consider you a good credit risk, they'll often offer a lower interest rate. If you have a poor credit rating, they may charge a very high interest rate, or refuse to offer a loan.
- You can request a copy of your own credit report from rating companies, and you can have them correct any errors in it. The main credit bureaus in Canada are Equifax Canada Inc. (www.equifax.ca) and TransUnion Canada (www.transunion.ca).

USING DEBT WISELY

Your decision to use debt, whether for short-term purchases or to finance your education and career goals, may have positive and negative implications for your future.

- Short-term implications. You don't have to wait to accumulate savings before moving toward your goals. But interest on debt adds to the cost, and you have to budget for regular payments.
- Long-term implications. You can achieve your goals earlier. But taking on debt limits your future choices, because you'll have to pay it back, which will reduce the money you have available for other options. Building a positive credit rating by using debt responsibly can make financing easier in the future. But a negative credit rating will limit your options in many ways.
- Because debt is expensive, the best financial strategy is often to *pay down debt as quickly as possible*.

You can pay in the short term, or you can pay in the long term, but you have to pay. The longer you put it off, the more you have to pay.

BORROWING MONEY AND MY FUTURE GOALS (cont'd)

WHAT CAN YOU DO TO AVOID DANGEROUS DEBT?

- Keep your credit rating positive. Pay your bills on time and don't take on debt you can't pay off.
- Go to reputable agencies like banks and credit unions for loans.
- Keep some savings ready for emergencies.
- If you run into credit problems, you can get free or low-cost advice from community and government organizations.
- Be on the watch for scams and rip-offs. You can get information about scams in your area from the Better Business Bureau (www.ccbbb.ca) and similar organizations.

ASSIGNMENT: CREDIT IN MY FUTURE

Fill in the following:

When I leave secondary school, I plan to:

If I borrow money or use credit to do this, it could affect my education and career goals. Some pros and cons to borrowing are:

Pros: _____

Cons: _____

So I'll manage my credit by: _____

Discuss with your parents or another adult how you plan to manage credit in your transition from secondary school. Write a summary of your discussion.

CARD SHARPS

Name: Class/Block: Date:

CREDIT CARDS

Rachel opened the mail eagerly. Her first credit card! And at a special low introductory interest rate, not that that mattered, because she was going to pay off the balance every month.

At first, she was very careful. But when she got busy, she was sometimes a little late with her payment. It wasn't too bad, though – although it did add a surprising amount to the cost. So whenever she had to pay the added interest, she said to herself, "I'll have to make sure I don't do that again."

Occasionally, when she was short of cash, she took a little cash advance. "I'll pay it back from my next paycheque," she thought. When her monthly bill arrived, she said, "I have to remember to pay that right away," although sometimes she didn't. Then when the bill arrived, the interest charges were a shocker – "How could it be that much?" she thought.

She decided to call the card company to ask. The agent on the phone explained that, first, the low introductory rate was just for the first three months, and it only applied to balance transfers. But since there was an unpaid balance from the previous month, the low rate did not apply anyway. And the interest-free grace period did not apply when there was a cash advance outstanding, so Rachel had to pay the full interest rate on the entire balance from the date of the charge. And the cash advance fee, too.

Oops. Rachel had to admit that it was all in the agreement she signed, although she had not really read the four pages of tiny type. And it might not have made much difference if she had, because she intended to pay the balance before the interest came due. And even when the agent on the phone explained it, it was hard to understand what charges applied, and when they were due.

Credit cards are complicated tools, with complex rules. They can be helpful but they can also be costly. The tips at the end of this sheet can help you use credit cards carefully.

PREPAID CARDS

David's mom wanted to be sure he'd be okay when he left home, so she got him a pre-paid charge card with \$250 on it – "For emergencies," she said. "It's very secure. You have to type a PIN to use it, like a debit card. And if it gets lost, you just call the number on the back, and you're not responsible for it."

David had a few "emergencies" when he was out with friends, and soon found that the card was refused when he went to use it. He was a little surprised because he thought there was more money on it. But since it was convenient, he thought he'd top it up himself. Then he was more surprised when he saw the charges on the card account.

A loading fee to add more money to the card: \$3.95. Ten purchases at 50 cents each. Two ATM withdrawals at \$2.95 each. Monthly maintenance fee, \$5.95. Total cost, \$24.75. And that didn't count the \$24.95 sign-up fee his mother had paid. "Almost \$50 in fees," he said. "Forget it. Just give me the rest of the cash on the card."

CARD SHARPS (cont'd)

"If that's what you want," said the clerk. "There's a \$4.95 fee for cashing out the card."

Prepaid cards are the opposite of credit cards – instead of buying and paying later, with a prepaid card, you pay in advance and buy later. You don't pay interest, but you will pay fees, and the fees can be just as costly as interest. Many retailers and financial institutions offer prepaid cards. Some employers even pay employees with pre-paid cards. They are useful in some circumstances, but some are not good value. You have to know which is which.

Always be aware of what you are signing. In certain cases, minors can sign contracts (e.g., contracts to buy consumer electronics and other retail products, contracts to rent an apartment, etc.). So you could be responsible for any agreements or contracts you sign. Have students review the contract tip sheet on the FCAC website (go to www.fcac.gc.ca, Resources > Publications > Your Rights and Responsibilities).

WHAT CAN YOU DO TO CONTROL YOUR CARDS?

- Ask questions.
 - + Find out how and when your card company charges interest.
 - + Find out what fees apply on the cards you use.
 - + Read your monthly statement. Question any charges you don't understand.
- Choose passwords that are hard to guess and don't let others find out what they are.
- Don't share passwords or PINs. People sometimes pretend to be a friend just to rip you off.
- Pay the charges due each month. If you have to keep an unpaid balance, pay it early to reduce interest charges.
- If you can't pay the balance, use a lower-interest type of credit, such as a line of credit, to pay the higher interest cards.
- Use cash advances only when absolutely necessary.
- Keep your credit record positive.
- Check your credit rating annually to ensure it is accurate and up-to-date. (You can request a free copy by mail. Agencies may charge a fee for requests by internet.)
- Go to reputable agencies like banks and credit unions for loans.
- Keep some savings ready for emergencies.
- If you run into credit problems, get free or low-cost advice from community and government organizations.
- Be on the watch for scams and rip-offs. You can get information about scams in your area from the Better Business Bureau (www.ccbbb.ca).

For tips and tools about credit and cards, including charts comparing the interest rates and fees on all the cards available in Canada, go to the FCAC website (www.fcac.gc.ca).

For more information about frauds and scams, visit the Canadian Anti-Fraud Centre website (www.antifraudcentre.ca).

FRAUD SQUAD INCIDENT REPORT

Name: Class/Block: Date:

Case Name: _____

Who blew it in this case: _____

What did they do wrong? _____

Smarten Up! To avoid future incidents, this person should: _____

Case Name: _____

Who blew it in this case: _____

What did they do wrong? _____

Smarten Up! To avoid future incidents, this person should: _____

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QUICK QUIZ – CREDIT AND DEBT

Name: Class/Block: Date:

1. Define the words:

- a. credit card _____
- b. debt _____

2. Name three advantages of using credit cards.

- a. _____
- b. _____
- c. _____

3. Name one disadvantage of credit cards resulting from irresponsible use.

4. Which of the following is not an example of a responsible use of credit?

- a. borrow only what you can repay
- b. understand your contract before signing
- c. pay amounts as agreed
- d. keep cards, PINs and passwords secure
- e. check your credit slips and statement
- f. pay the minimum amount owing on every monthly balance

5. Interest on credit card cash advances is usually charged daily from the date of the advance. (Circle the correct answer)

True False

6. List two positive and three negative implications of using debt

Positive implications

- a. _____
- b. _____

Negative implications

- c. _____
- d. _____
- e. _____

7. Prepaid cards don't charge interest but may charge _____.