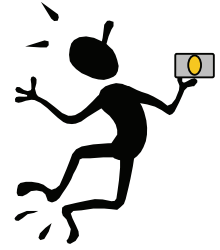


Trusts Education
Program

Credit & Credit Cards

**Knowing
the benefits
and dangers**



What is credit?

Credit facilities allow you to buy now but pay later. Companies charge for this service in the form of interest.

Types of credit include loans, personal credit lines, mortgages and credit cards. These services are provided not only by banks, but also many other financial institutions.

The key to the successful use of credit is knowing the cost of using it and learning to manage that cost. Credit can be good or bad. It's how you handle it.

If you don't use your credit wisely, you'll end up with a poor credit rating. With a poor credit rating, you'll have trouble getting loans and credit cards. This may be frustrating when you finally find the car or house of your dreams. You may also have trouble leasing an apartment or even a computer if you have a poor credit rating.

Employers can check your credit history before offering you a job. Remember that every incident of bad credit stays with you for 7 years so what you do today will have an impact on your life later on.

Remember, financial institutions want to make money. To do this, they may offer you access to more credit than you need. That doesn't mean you should use it - you may dig yourself into a hole you can't get out of!



Credit Cards

Dangers of Credit Cards

Credit cards are so convenient that we can easily get out of hand with our spending. Although “putting it on credit cards” feels as if you’re paying, you’re really just borrowing. In fact, if you don’t pay off your balance every month, you will be charged interest.

Using Credit Cards Wisely

If you can’t pay off the full balance each month, generally, you must pay at least 5% of the balance. Weigh the options before you buy. Is it still a good deal when you add the interest to the price?

Credit card interest rates can range from under 9% to almost 30%, so it’s important to pay attention to this rate!



Don’t get carried away with putting purchases on a credit card or you could be in for an unpleasant surprise when your statement arrives.

Cost of Credit

You pay for the cost of credit through interest. **It’s important to pay attention to the interest rate** - some credit card rates are as high as 30%, which adds up very quickly! If you do use credit, borrowing will cost you less in the long term if you make extra payments or pay off your balance sooner.

Example 1: Borrowing \$10,000 for a car and paying it back in **5 years**:

| Monthly Payment | Total Amount Paid | Total Interest Paid |
|-----------------|-------------------|---------------------|
| \$207.63 | \$12,457.80 | \$2457.80 |

Example 2: Borrowing \$10,000 for a car and paying it back in **3 years**.

| Monthly | Total Amount | Total Interest |
|----------|--------------|----------------|
| \$313.08 | \$11,450.00 | \$1450.00 |

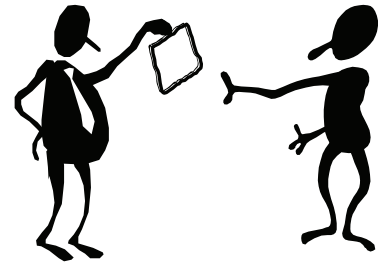
That’s a savings of \$1,006.92!

As you can see, it benefits you in the long run to make the maximum monthly payments you can afford. This will reduce the interest and total amount you end up paying.

Credit Rating

Your credit rating is a measure of your credit-worthiness. To build a good credit rating you should:

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



Credit companies often make it tempting and downplay the potential costs. Make sure you read the fine print before signing up.

Helpful Hints

- ◆ Watch impulse buying. Ask yourself if you’d still buy an item if you were paying cash.
- ◆ Credit is money, so compare price and value when you’re shopping for an item.
- ◆ Don’t have more than one credit card.
- ◆ Keep track of all credit card purchases and compare your receipts against monthly statements.
- ◆ Pay off your credit card balance in full every month.

Remember, credit can be an asset to your lifestyle, but if it’s not handled carefully it can become a problem. Consider all the factors and weigh them against your personal needs, values, and goals before using credit. Only then can you make an informed decision.



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