

# CREDIT AND DEBT MANAGEMENT

*NEWFOUNDLAND AND  
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## WHAT IS CREDIT?

- Credit refers to money that is loaned to you for a cost (interest).
- There are many different types of credit, including car loans, bank loans, mortgage loans, credit cards, and loans from friends and family. It is important to choose the kind of loan that best matches your use of the money you are borrowing.
- Make sure you can afford to pay back the money and interest.
- Some kinds of credit may require you to pay service charges in addition to the interest paid on the loan.

Before using any type of credit or loan, make sure you know the:

- Monthly payment amounts.
- Interest rates.
- Length of the loan (the number of months or years it will take to pay off the loan).
- Late payment penalties.
- Fees for going over the limit.
- Total cost of the loan (including interest and all fees).
- The amount and frequency of any service charges you may have to pay.

## CREDIT SCORES

- When you have a credit card or other loan, your financial information is collected and reported to the Credit Bureau (Equifax and Trans-Union Canada).
- The Credit Bureau creates a report on each individual's credit history, recording your past use of credit and your record of repayment.
- Financial information is translated into a credit score, which affects your ability to borrow money.
- It is your responsibility to ensure your credit report is accurate. Obtain copies of your credit report from both Equifax and Trans-Union to ensure your records are correct and consistent.

**Equifax Canada:** 1-866-828-5961 (toll-free)

**Trans-Union Canada:** 1-800-663-9980 (toll-free)

## CREDIT CARDS

### *What Is A Credit Card?*

- A credit card is a plastic card with a magnetic strip, an antenna, and microchip that enables people to make purchases, without cash, up to a fixed limit.
- Credit cards are useful for making big purchases, buying items online, and building up a good credit history (if the bill is consistently paid on time).
- Because credit cards tend to have high interest charges compared with other kinds of credit, interest charges can add up quickly if the total credit card balance is not fully paid on time.
- If you receive a credit card application in the mail that you did not ask for, **you do not have to fill out the application** and you should destroy the application.
- Apply for a credit card **only** when you have a specific need for one and the ability to pay for charges incurred on it.
- You can call your credit card company and refuse any increases to your credit limit, and you can tell them not to increase your limit without your consent.

## TYPES OF CREDIT CARDS

**1. Unsecured credit cards** (e.g., bank and retail store credit cards) do not require a security deposit to get the card.

**2. Secured credit cards** require a security deposit. The credit limit usually equals the amount deposited onto the card.

A “set up” or application fee may be charged depending on the issuing financial institution.

- Secured credit cards may be an option for those who are unable to get an unsecured credit card because they lack a credit history, are new to Canada, or they need to improve a poor credit score.

### **Note:**

**Prepaid Cards** (also called prepaid debit or credit cards) **are NOT** credit cards, because they require you to put money on them in advance, and the transactions will **NOT** help you establish or improve your credit score.

- **Prepaid cards have the Visa or MasterCard symbol on the front.**
- They can be used at most places in the same way you can use a regular credit card.
- There are many fees associated with prepaid cards, including activation fees, fees to add funds and check balances, and cash withdrawal fees.

## **CREDIT CARD COSTS**

- Each month the credit card company will mail you a bill that lists all your purchases from the past month and you will be given approximately three weeks to pay your bill.
- When you pay in full, there are no interest charges.
- If you choose to make a smaller “minimum payment”, you will be responsible for paying interest charges on each item from the date of the initial purchase.
- Interest rates can vary from 9% on some cards to 30% on some credit cards.
- Paying attention to interest rates, cash advances, understanding how and when you are charged interest, and paying more than the “minimum payment” will help you manage your debt.

### ***When Choosing and Using a Credit Card, Consider the Following:***

- Another word for “credit” is “debt”. Use restraint and good judgment when using “credit”.
- Credit cards differ in terms of fees and services offered. Familiarize yourself with the credit card’s fees and services to see if it meets your needs.
- Find a card that does not have a high interest rate by checking with several institutions.

- Generally, banks charge the lowest interest rates while finance companies and department stores charge the highest rates.
- Pay more than the minimum payment to lower the balance faster and save on interest costs.
- Use only one credit card, rather than several.
- Do not use a credit card as a substitute for pocket money.
- Keep all credit card slips, total the amount and record it on your budget sheet.
- Before signing a contract (a written agreement) of any kind, make sure you understand all information.
- Never sign a credit card agreement until you read and understand it. Always ask questions if you are unclear.
- If language is an issue, ask for help first.
- You can cancel a credit card at any time. You will still be responsible for repayment of the balance, as well as any interest, fees, or service charges, until the credit card is paid off.

### ***Questions to Ask When Thinking About Getting a Credit Card:***

- What is the credit limit that I have been given and how often can that limit be increased or decreased?
- Is the credit card accepted internationally?
- Do I have access to cash advances and balance transfers?
- What are the introductory fees, annual and transaction fees, and penalties for late payment?
- What are the interest costs and how are they calculated?
- Ask about any feature you would like your credit card to have.

**Note:** Record your credit card number and the credit card company's customer service and emergency telephone numbers. Calling these numbers can connect you with an agent in the event that you have a question, concern or an emergency, such as your credit card being lost or stolen.

## TIPS FOR MANAGING DEBT

- It is easy to feel overwhelmed by debt. When you cannot pay your bills, you need to pay even closer attention to your finances.
- **Do not** add to your debt by borrowing more money.
- Keep copies of everything you sign.
- **Know** what you are able to repay if you are approved for a loan and know the conditions of the loan (interest charges, terms of increased payments, early termination, etc).
- **Contact your creditors to work out a way to pay your debt.** Creditors can decrease your interest rate or agree to a payment plan to pay off the amount owing.
- **Reduce** the limit on your credit cards to avoid the temptation of over-spending.
- If you have savings or investments, use some of the funds to pay down your debt.
- Be honest with yourself about your debt. Think about how you got into debt in the first place so that you can avoid making the same decisions in the future.
- Contact a financial counselling agency early. See page 7 for details.

## DEALING WITH COLLECTION AGENCIES & FINANCIAL DISTRESS WARNING SIGNS

- Try to pay the money you owe right away.
- Explain your situation in writing to the collection agency.
- Include the reason you cannot pay and explain your plan for settling the debt.
- Keep a copy of all letters and payments you send to the collection agency.
- You may be able to negotiate with them to work out a payment plan.

### ***What are the Warning Signs of Financial Distress?***

- You are using credit cards to pay for monthly necessities.
- You cannot pay your credit card bill fully when it arrives.
- Creditors are harassing you.
- Your wages are being garnished.
- You are frequently worried about how you will pay your bills.
- If these signs apply to you, contact a financial counselling agency.
- For information on declaring Bankruptcy including alternatives to bankruptcy, call the **Office of the Superintendent of Bankruptcy Canada** at 1-877-376-9902 (toll-free)

### **WHERE CAN I GET MORE INFORMATION?**

**If you feel overwhelmed by debt, free professional financial counselling services in Newfoundland and Labrador include:**

#### **Credit Canada**

Toll Free: 1-800-267-2272

#### **Credit Counseling Services of Newfoundland and Labrador**

Toll Free: 1-800-656-3920 or from St. John's: 709-753-5812

#### **Credit Counselling Services of Atlantic Canada**

Toll Free 1-888-753-2227

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