
Credit and Debt

What is Credit?

Credit is a contract between a lender, such as a bank, a credit card company, or a store, and an individual or company. The lender provides the money or access to money, such as a credit card, and the borrower promises to pay back the money. Lenders offer credit because they make a profit from the amount of interest that is charged. Credit helps us buy what we want or need, but it comes with a cost. It is not a community service or a public service, it is a money making operation for the lender.

What Different Types of Credit Are Available?

Mortgages - These are loans made by a bank or other financial company to finance the purchase of homes, other buildings or land. The mortgage is a "lien" on the property and will have to be paid before it can be sold again. This means the bank or mortgage company actually has the legal title to the property until the loan is repaid. If you fail to pay your mortgage, the bank can sell the property to get back the money it loaned you.

Bank loans - for cars, boats or furniture are chattel mortgages. These are similar to mortgages, but cover possessions other than land or buildings. If you don't make your payments, the bank has the right to sell the mortgaged possessions.

Conditional sales contracts - These loans are generally available from stores where items are being sold on a "buy now, pay later" basis. You get possession of the items but you do not own them until you make your last payment.

Personal and demand loans - These are loans given to you on the strength of your promise to pay back the money. Usually there is a fixed time limit for payment. The amount of interest you pay, the length of time you have to pay, and

the frequency of your payments, are all part of the contract. These conditions of repayment vary widely among lenders.

Credit cards - are loans from the credit card company to you. They have a very low cost if you pay them off in full each time you get a bill or statement, and a very high cost if you do not pay anything or just pay some of the amount. They are very convenient, but can also be a big problem. Many people have trouble controlling just how much money they spend through their credit card.

Charge accounts - These are available in some stores. Interest rates and repayment conditions vary greatly.

Tax discounters - If you are expecting an income tax refund, you can sell your tax return for cash. Usually you will be charged up to 15% of your refund for the convenience of having the cash now.

Using Credit

When you use credit, you are promising that you will:

- pay back the money you owe
- make the payments at certain times, and
- give back what you are buying if you do not finish paying for it

If you have to give back the item you are buying or if it is taken back, the money that you have already paid will not be returned to you.

How and Where Do I Apply for Credit?

Before you apply for any credit, you need to understand the terms **credit history** and **credit rating**. These are different names for a summary of your borrowing and repayment of money. If you borrowed money in the past, and always made your

payments regularly, you will have a high credit history score. If you borrowed money in the past, and did not make your payments on time, or never returned it, you will have a low credit history score. This will reduce your chances of getting credit. Not paying your regular household bills can also reflect on your credit history. As a newcomer to Canada, you are starting with no credit history at all (credit history from other countries is not recognized, even if you had a major credit card outside Canada). You will gradually need to establish your Canadian credit history before being able to get larger loans, such as a car loan or a house mortgage.

There are many places which offer credit. Each *VISA* or *Mastercard* lender has a different interest rate and different fees for the use of the card. The interest-free period can vary too. Accounts with department stores traditionally carry higher interest rates than credit cards, so think carefully about why you need credit and what you wish to use it for.

You will have to fill out an application form, and included on that application form will be permission to look into your credit history. The application form is a contract, so read it carefully before you sign it. If there is anything you do not understand, ask questions. Better still, get a copy of the application form before you need credit. Take it home, read it over, ask questions, or go to someone for advice. It is wise to shop around before you buy anything to be sure that you are getting the best deal. The same is true when you're shopping for money. Rates of interest are different at different places.

If your application for credit is turned down, ask for the reason. Lenders can refuse to give you a loan if they do not think you are a good credit risk. They may ask for a co-signer if they think you will not be able to repay. Some reasons you may be refused credit are: you do not have a job; or you are new to this country and do not have a credit rating. You can not be refused credit because you are an immigrant or because you are from a different ethnic group than the lender. You cannot be refused credit because you are single, or married, or a woman, or disabled. If you think you have been turned down for credit because of your race or one of the other

reasons given above, you should contact the Human Rights Commission.

Co-signing a Loan

This is very important and is often misunderstood. Sometimes people are asked to co-sign a loan for their spouse, other relatives or for friends. Once you sign, you are not just giving permission for the loan, you are usually promising to repay the whole loan if the other borrower does not do so. If you cannot or will not pay you could be sued. Your income and the things you own could be taken once you co-sign a loan. Your credit rating will also be affected if the loan is not repaid.

It is also important to remember that once you have co-signed a loan you will continue to be liable for it until it is paid off - even if you move away or stop seeing the person for whom you co-signed.

Credit Tips Everyone Should Know

- Do not sign a credit agreement until you have read it and understood it. Ask questions until you are satisfied.
- Never sign a blank agreement. Your signature is your promise to pay and the contract is a legal document.
- Always pay your bills on time; this is your obligation.
- If you find yourself in temporary financial trouble and you can not meet the payment date, tell the lender before the due date. The lender may agree to rearrange payments.
- Try to pay off any debt quickly. Try to avoid long, low monthly payments and higher interest rates.
- Only deal with well-known and respected companies and make sure you understand the total cost of the loan.

Some Symptoms Of Financial Trouble

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- The phone company and electric company threaten to disconnect you because you've missed payments.
 - You are using credit cards to pay for essentials like utility bills and food.
 - You sell belongings to add to your monthly income.
 - You are paying your monthly bills to creditors (the people who lent you money), but there is nothing left afterwards.
 - Your home and family atmosphere is tense. There are fights about money, maybe you and your partner separate.
 - You are drinking a lot, or taking drugs to make you feel better about yourself.
 - You have to keep asking for advances on your pay cheque.
 - Some of your belongings have been taken to pay for loans.
 - You are being sued in civil court for money you owe.

What can the Lender do if I do not repay a loan?

This will depend on the type of loan and what the loan contract says. To understand your position you may need to see a lawyer or an accountant.

Lenders may do some or all of the following:

- Telephone you.
- Send a "demand letter" telling you what it expects you to do.
- Demand that you pay the whole loan now rather than in monthly

payments.

- If the loan is secured by a mortgage the lender can sell the land and buildings on it in a mortgage sale. (They have to give you proper notice first.)
- Take (repossess) cars or furniture that are secured under the loan.
- Start a court action and get a judgement against you. (This becomes a lien and may allow your things to be taken and your wages to be garnisheed or taken.)
- Turn over the debt to a collection agency which will earn a percentage of the amount collected. These agencies must follow provincial laws, they are not allowed:
 - to harass you or threaten you
 - to call you between certain hours, or
 - to call your employer, friends or neighbours except to get your address.

Lenders also make sure that other lenders know about people who have not kept up their payments. They do this by telling credit bureaus such as Equifax about all of the people to whom they have lent money. Files are opened for each person and if you have not kept your payments up-to-date, this information goes into your file. These files are open to other lending agencies. If you apply for credit from another lender, your credit record will be found and you will be refused. A poor credit rating is no secret, most lending agencies have access to the files at the credit bureau.

I Am Having Financial Problems, What Should I Do?

If you are facing financial difficulties, do not ignore them. Try to resolve your financial situation as quickly as possible. There are services available to help people who are having financial difficulties. Family Service PEI offers a credit counselling

service provided by counsellors who are trained and operate under standards set by Credit Counselling Canada.

The confidential credit counselling service works with you to find solutions to your financial troubles. These include helping you to develop a budget to track and control your spending, intervention and mediation to help you resolve debt concerns with particular creditors, a voluntary debt repayment plan, and referrals to other agencies and services.

What does it mean to “go bankrupt?”

Sometimes when you have many personal debts and you can see no way of paying them off, the best thing you can do is to declare bankruptcy. Consumer bankruptcy is a legal process. You contact a bankruptcy trustee and if you are accepted, all your assets, except those exempt by law or held in trust for someone else, must be turned over to the trustee. This process relieves you of most of your debts, and legal actions taken against you should stop. Declaring bankruptcy is a very serious step and you should talk your situation over with a financial counselor, a lawyer or an accountant before starting the process.

The very worst thing you can do if you are having financial problems is to ignore them. Once you know you are getting into trouble you should contact your lender and see if other payment arrangements can be worked out, or you should contact Credit Counselling Services. Confidential financial counselling and advice is available to anyone. The telephone numbers are 892-2441 in Charlottetown, 436-9171 in Summerside or (toll free) 1-866-892-2441.