

# My Credit Options



## I want healthy credit, but...

*I'm already bent out of shape over interest!*

### We dare you to compare!

#### Current credit card rates vs. Credit Union loan rate\*

<b>The Credit Union</b>	6.75% to 14.75%
TD Canada Trust Visa	19.75%
Sears	28.8%
The Bay	28.8%

#### Cost of making 3% min. payment vs. \$150 CU loan payment on a \$3000 credit card balance

Interest rate	Months to pay off	Total interest paid
19%	202	\$3124.48
<b>total interest rate: 104.1%</b>		
28%	394	\$9651.31
<b>total interest rate: 321.7%</b>		
<b>13.2% CU Loan</b>	<b>23</b>	<b>\$406.00</b>
<b>total interest rate: 13.5%</b>		

\* Posted rates as of June 21, 2007. Subject to change.

**“Having their mortgage paid off came with a price for a pair of married members: credit card and line of credit debt.**

They lost control of the minimum payments, interest was piling up, and they were using other credit cards just to keep up. We helped them use the equity in their home by consolidating their credit debts into a mortgage. With one monthly payment they now have money left over at the end of the month and have room for savings. Let us show you how you can too.”

As told by a Credit Union Member Service Rep

### Does Revolving Credit = Perpetual Debt?

Whether it is a credit card or a line of credit (LOC) almost everyone has some form of revolving credit. Revolving credit is simply a pre-authorized loan that you can keep borrowing from until you “max-out” the limit. All you have to do to keep the account in good-standing is make the minimum payment. It may be a percentage of your balance or just the monthly interest and you are good to go. But are you? That depends...

### How can revolving credit work for you?

Using credit cards and paying them off before the interest-free grace period expires is a great way of using someone else's money. Your money can then be earning interest until you pay off outstanding balances. Lots of cards also come with great benefits such as added insurances against losses. Many people use them to earn points that can be converted to plane tickets and other goods. Others use them because it can be cheaper than running activity through a chequing account. No matter how they are used – to benefit you the balance has to be paid off each month.

### Against you?

Do you remember when you could touch your toes, hang upside-down on the monkey bars or throw a baseball for hours? What's stopping you now – tight muscles that restrict your movement and cause you pain. Credit cards and LOCs payments can quickly become a muscle that just keeps getting tighter and tighter. Using your cards/LOC and letting the balance accumulate means you are paying interest – interest that can range from as little as 6% up to 28%. Each month a balance is carried forward the amount of interest paid increases – you end up paying interest on interest. Make only the minimum payment each month and that \$150 dinner at 18.5% with a minimum payment of 5% will take years to pay off and cost you about \$70 in interest charges, a total interest rate of almost 47%. The bad news does not stop there. Carrying balances affects your credit score and could increase the rate on future loans. It may even mean you no longer qualify for a loan. That feeling of having a muscle that slowly restricts your movement becomes a reality each month as balances climb and your monthly cash flow gets tighter and tighter.

### How is the financial service industry responsible?

Each year we hear that Canadians are reaching record levels of personal debt. Here's the thing – consumers did not get into this mess all by themselves. They each had a group of partners who enabled them to get there. Every week mail boxes are flooded with credit card, line of credit and balance transfer offers and it is kind of flattering to think you are worthy of more credit. But all have one thing in common – a financial institution looking to collect interest dollars. That is one way financial institutions make a profit. There is no question that we have become a borrowing society and that we have stopped saving. Ultimately we are responsible for making these choices – but when a financial institution says it's OK – well it seems OK. After all aren't they the ones that understand money? **Your credit union does not think it is OK.**

### We'll show you how to loosen up.

When you add up your outstanding credit card and LOC balances and figure out how much you paid for each purchase it can really be scary. You can spend a lot of time and energy beating yourself up over how you got there. Honestly, it is just a financial position and one that can be changed. Bring in your credit card and LOC statements and we'll show you how to loosen those muscles. Whether it is recommending where you can negotiate a better interest rate, figuring out a budget so that you do not rely on your cards, or combining your balances into one loan we will find the solution that works best for you.

Credit cards and LOCs can be an excellent tool. The first step is to determine whether your revolving credit practises are putting a strain on your financial health. When it comes to your financial fitness it is never too late to start making a positive change. Not sure where to start? We'll show you how.

Turn over to read more about financial fitness and take the financial flexibility test.

# We'll show you how...

Go to [mycreditunion.ca](http://mycreditunion.ca) for:

- » The Personal
- » Using Credit Wisely
- » Financial Fitness Test

## Fitness and YOU

We all know that being physically fit is important to our overall health and well-being. Being financially fit is no different. Any fitness program starts with understanding your present condition. There are five basic tests to determine your starting position and identify what areas you need to work on.

**Cardio:** Cardiovascular health is working to keep your heart strong so that it does not need to work as hard to pump blood.

A strong financial heart means that you are able to pay your bills without breaking a sweat and still have enough left over to enjoy the rest of your life.

**Strength:** Having strong muscles is like having a strong foundation. Your core strength improves your flexibility and balance, at the same time as it keeps your bones strong. Financial strength means saving; for what you want now and in the future.

**Flexibility:** Being financially flexible allows you to move throughout the month without having to worry about how you are going to make your credit card and loan payments.

**Agility:** Being quick on your feet means you are agile. Financial agility allows you to deal with any emergency situation that comes along.

**Balance:** Financial balance, just like physical balance, means that you are well conditioned. Performance on all activities is improved. Whether you are just starting out and are borrowing for a home, sending your kids off to university or getting ready for retirement there are important choices to make. Balance means that for each stage of your life you are well prepared and in the best possible condition.

We have a quick and easy test for each of the five areas of financial fitness. After you take each test and measure where you are right now the next step is to start a program to get you in the best shape possible. Over the coming months we will highlight one fitness test in each newsletter. Can't wait? Go to [www.mycreditunion.ca](http://www.mycreditunion.ca) and click on Financial Fitness Test to complete the whole test. Bring in your results and get started on a plan... We'll show you how.

## Fitness Test# 1: Flexibility

Financial flexibility means that you are able to move through the month without pain from your loan and credit card payments. Your take home pay is enough to cover your payments with ease at the same time as paying down your debts.

**What you will need to take the Financial Flexibility test:**

Net pay amount, current credit card and LOC statements, loan payments amounts for all your loans (this includes car loans, student loans, consolidation loans – just do not include your mortgage payment if you have one), calculator, pencil/pen and some paper.



STEP 1: Calculate your monthly take home pay	STEP 2: Calculate your monthly loan payments	STEP 3: Calculate your revolving credit/personal loan service ratio	STEP 4: Finding your place on the Flexibility Scale
<p>Take your net pay and multiply it as follows:</p> <ul style="list-style-type: none"> <li>• If you get paid once a month that is your net monthly take home pay</li> <li>• If you get paid every 2 weeks multiply your net pay by 2.167 i.e., \$1153.67 x 2.167 = \$2,500.00</li> <li>• if you get paid every week multiply the amount by 4.333 i.e., \$576.97 x 4.333 = \$2,500.00</li> </ul>	<ul style="list-style-type: none"> <li>• List each of your minimum monthly payments on all credit cards and LOCs i.e., Visa = \$27; HBC = \$43; LOC = \$95</li> <li>• List each of the payments on your other loans – do not include your mortgage i.e., car loan \$523.75; student loan = \$ 127.50</li> <li>• Add them all up – this is your total monthly payment obligation i.e., \$816.25</li> </ul>	<ul style="list-style-type: none"> <li>• Take the total from Step 2 and divide it by the total in Step 1 i.e., \$816.25/\$2,500.00 = .3265</li> <li>• Your ratio = .3265 x 100 = 32.65%</li> </ul>	<p>Find the category that your ratio falls in:</p> <p>Surviving = 30% or more Stable = 20% to 29% Secure = 0% to 19%</p>
<p>In our example we fall into the surviving category. No matter where you fit it is a great place to start. That's the point – it is a starting position. You need to know it so that you can watch your flexibility improve over time. The goal is to get this number as low as possible. To decrease your ratio you either have to pay down your debt or increase your income.</p>			

## Flexibility Improvement Plan

You can start by making more than the minimum payment each month. Even a little more will help slowly bring down the balance. Make sure you are paying more on the cards that have the highest interest rate so that you pay less interest overall. Call your credit card companies and ask for a lower rate. But the hard part is that you have to change how you use them. Purchases need to be paid off when they show up on your statement. That means you make your budgeted payment plus whatever you charged that month.

You can also borrow in the form of a consolidation loan that combines all your balances into one loan and one payment. Typically it has a lower interest rate and a fixed term. Each credit card or LOC is paid off. The hitch is that in order to stay ahead you cannot start carrying balances again. If you use them they need to be paid off each month. For some that can be achieved by developing a new set of spending behaviours. For others the best thing to do is to cut them up. An added benefit of a consolidation loan is that payments are usually less than the sum of all the payments made on each card. By improving your cash flow you can be in a position where you do not need to rely on your cards to make ends meet, pay for an unbudgeted expense or buy that new DVD.

Not sure where to start – call or come on in we'll show you how.