

# My Credit Union Financial Advocate



## Important Announcement

This year, 4 positions are available on the Board of Directors, 3 for a term of three years and 1 for a term of one year. Nominees must be members in good standing and be nominated by two other credit union members. Nominations will be accepted until March 13, 2009 and must be mailed to:

**Nominating Committee**  
Ontario Civil Service  
Credit Union Limited  
18 Grenville St., Suite One,  
Toronto, Ontario M4Y 3B3

I want to get a loan, but...

*I keep hearing about the credit crunch.*

Credit crunch, recession, bailouts, unemployment - everyday there seems to be another reason to worry about your money and your financial health. There is no question it is time to get our financial health in order, but sometimes doing so means taking a loan. But how does the credit crunch affect you, the average borrower?

### The Credit Crunch in a Nutshell

As the dust started to settle on the sub-prime mortgage debacle and the banks started to pick up the pieces, it became abundantly clear a new problem was on the horizon. If they could not sell off mortgages in the marketplace any longer, where was the money going to come from to keep the lending business going?

The credit crunch exists because many financial institutions do not have enough deposits to continue to lend to their customers. With a limited supply of available cash to lend, the credit crunch was born. Beyond traditional financial institutions like banks, credit unions and caisses populaires, the credit crunch has affected mortgage brokers and the finance arms of some companies, like car manufacturers. The bailouts helped the financial institutions keep their doors open, but the cash infusion has not been enough to fix the underlying problems.

With demand for loans outstripping the cash to fund them, the borrower can be affected in a few key ways. For starters, interest rates start to creep up. The Bank of Canada has been trying to keep the prime lending rate as low as possible, but where a borrower will see the difference is in the discount the lender is willing to give. While prime may stay the same your loan rate will increase. That includes credit cards as well. Non-traditional lenders like car manufacturers may get to the point where they can no longer fund car loans at low rates.

Lenders also become more selective. If your credit has been spotty for whatever reason, it may become more difficult to borrow. Lenders cannot afford to have any more loans which cannot be paid back. Borrowers may find high-ratio mortgages become more difficult to get with lenders requiring larger down payments or lower debt-service ratios.

There is no question over the short and medium term, just like their customers, financial institutions will be looking at their financial health and figuring out ways to shore up their balance sheets.

### The Good News – Your Credit Union is Open for Business

Cash reserves are what every financial institution is looking for and exactly what your Credit Union has. What does this mean to you? Our balance sheet has not been compromised and we are open for lending, just like before the financial meltdown. We have a full suite of loan products including car loans, lines of credit, mortgages and consolidation loans. All at competitive rates.

The current state of the economy does not change our underlying mission to be your financial advocate. We want to make sure you are able to weather the current financial turmoil in the best way possible. Borrowing money in uncertain financial times can still make sense, but we want to work with you to make sure your financial health is not compromised. Getting your credit card and personal loans under control is especially important now. On page two read all about the power of consolidating debt.

If you haven't already or it has been a while – now is the time to take our financial fitness tests. Go online to [www.mycreditunion.ca](http://www.mycreditunion.ca) and click on the "Get Financially Fit" icon to see our five financial fitness tests. Start with the cardio and flexibility tests to get a handle on your budget and borrowings. Not on-line? Come in to the branch or call Member Assistance to get your paper copy.

**"A member came to us for a small loan to cover her expenses and to make a RRSP contribution.**

When completing her loan application we noted she had a large balance on a credit card with a high rate. We consolidated her credit card debt into a loan with a substantially lower interest rate than she was paying on her credit card. By decreasing the amount of interest she was paying, we increased her payment amount and now her loan will be paid off sooner than she thought."

As told by a Credit Union Member Service Rep

Turn over to read about the power of consolidating debt

# The Power of Consolidating Debt

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

- » 2009 Resolution – This is the last year for a last minute RRSP contribution
- » The Personal – Questions to ask before you buy car insurance

Even if you never read a newspaper, listen to the radio or watch TV you can tell by your grocery bills and your credit card statement that the economy is in a downturn. Rising prices and rising rates across the board all mean your cash flow is squeezed. And it sounds like it may get worse before it gets better. It is time for Canadians to tighten their belts. One of the most painless ways to do just that is to consolidate higher rate credit cards and loans into lower rate products, like consolidation loans and lines of credit.

## How does interest work?

Whenever you borrow money or use your credit card the lender makes their money on the interest you pay. Interest rates are determined by a number of factors like the economy, the borrowers risk profile and the type of product. Secured debt, such as a mortgage or car loan, typically has lower rates because the loan is secured by your home or car. If you don't pay your loan as agreed in your contract, the lender has the right to seize your property and sell it to get their money back. Credit cards and personal unsecured loan rates are usually higher. But in both cases interest is calculated simply by multiplying the rate by your balance.

The higher the interest rate the more you pay in interest. And of course, the higher the balance the more you pay.

When you get a personal loan at a financial institution a rate is applied to your balance and part of your payment covers the interest due and the rest goes to pay down the principal of the loan. Each payment is structured that way. So at the beginning of your loan, your bi-weekly or monthly payment covers mostly interest. As you pay down the principal, more of your payment goes to reducing your balance and less to interest. Typically, your financial institution will work out a schedule so that your loan is paid off in a specific period of time.

Credit cards are a different kettle of fish. Interest is calculated in the same way, but payments are structured differently. The amount you pay each month is calculated as a minimum percentage of your balance due. If you pay only the minimum balance you are likely not even covering your interest payment, and guess what, any interest amount still owing is added to your balance and next month you are paying interest on interest. Not so nifty. Now you know why so many advertising dollars are poured into those expensive TV and print ads.

## What do you do?

If you have outstanding credit card balances and you are not paying them off each month it is time to restructure your debt. Talk to your financial advisor about getting a consolidation loan. This is a loan that adds up all of your outstanding debt and puts it all in one loan and the proceeds of the loan are used to pay off your credit card balances. The consolidation loan will have a lower rate of interest than any high rate credit cards. What does a lower rate mean to you? As you now know lower rates mean paying less interest, but it can also mean the amount of your payment each month will be lower. You can elect to keep the payment amounts the same and get out of debt faster, or loosen up your cash flow or start that savings plan you keep thinking about. You can also try calling your credit card providers and ask them to lower your rate.

## The Credit Union Loan Rates vs Credit Card Rates\*

Home Depot	28.80%
Future Shop	28.80%
Sears	28.80%
The Credit Union	6.3% to 14.65%

*\*rates subject to change*

## How to get started?

Gather up all of your recent credit card statements, loan documents and bank statements and come in to your nearest branch or call Member Assistance. We would love to set-up an appointment to help you figure out how to save money on your interest payments. Even if a consolidation loan is not the right answer for you, there are other ways we can help you get into the best possible financial health right now.

## What don't you do?

Whether you pay off your balances on your own or get a consolidation loan, once your credit cards and higher rate loans are paid off the worst possible thing to do is to start using your credit cards again. Cut them up, lock them away – whatever you have to do. Keep the lowest rate card for emergencies. Only use your cards if you are able to pay off the balance when the bill comes in.

## Anything else?

Consolidating your debt to pay lower interest is not the only thing that you need to do. In a recent survey less than 30% of members indicated they followed a financial plan. The largest group of respondents indicated they pay their bills and live on the rest. In fact you need a financial check up and plan more than ever. It's time to make a plan that gives you the financial health to weather any ups and downs.

Make sure  
we C.U.™ before  
the March 2<sup>nd</sup>  
RRSP deadline.



**QuickTax**  
Choose Easy.

**MAXIMIZE YOUR DEDUCTIONS**  
Do your taxes online  
with QuickTax

**Save 20%**

**The  
Credit Union**  
For All Government Employees

We'll show you how.

Member Assistance  
416-314-6772 or 1-888-516-6664  
[memberassistance@mycreditunion.ca](mailto:memberassistance@mycreditunion.ca)

Direct Teller  
416-325-6818 or 1-800-387-0602  
18 Grenville Street,  
Toronto ON M4Y 3B3  
[www.mycreditunion.ca](http://www.mycreditunion.ca)