

# Dangers of Credit

## Credit Cards

- are actually pre-approved loans
- they allow people to live beyond their means
- people tend to use credit cards to cover shortfalls in income
- interest substantially increases the overall price of goods bought (see ‘What’s The Real Cost?’)
- the card, for many, never gets paid off as it keeps getting used
- each purchase is actually an additional loan
- interest is charged immediately on cash advances (no grace period to pay it off without interest)
- built in rewards/points entice people to use cards more frequently (and to carry multiple cards)
- they can become a trap; paying one card with a cash advance from another
- availability of credit increases impulse buying
- credit card users tend to spend more than cash buyers
- credit card companies are not responsible to ensure clients can afford to have a card
- most people have multiple cards (even though one is usually sufficient)
- **roughly 50% of Canadians only pay the monthly minimum payment**
- ties up future income for benefit today

## Overdraft

- actually a loan
- it becomes a cyclical trap (it is paid out on payday but the money is often needed prior to the next payday so it gets used again)
- a sign of overextending (borrowing for basic living expenses)
- interest/service charges can be costly
- should always be avoided (constant temptation)
- unnecessary with proper budgeting/saving practices
- ties up future income for benefit today



## Consolidation Loan

- is a real danger sign
- usually a result of too much credit that can't be handled properly
- extends terms of original debts even longer
- results in new interest being paid on top of old interest
- deceiving because people tend to look at the lower payment (not the total cost of the loan)
- unnecessary with proper budgeting/saving practices
- credit cards tend to get used again after being paid out by the consolidation loan
- ties up future income for benefit today

## Line of Credit

- is actually a pre-approved loan and can be quite large
- low interest rate and easy access is enticing
- can be a constant temptation (knowing you can access it anytime)
- allows people to live beyond their means
- ties up future income for benefit today

## Buy Now, Pay Later/ No Interest For 1 Year

- most people intend to pay the item(s) off within the year but never get around to it
- prices are frequently not sale priced
- by paying cash you can often get the item on sale and pay less
- there is usually a deferral fee (a cost for the privilege of financing)
- should only be used if the loan will be paid in full by the end of the deferral period
- payments after the deferral period are usually handled by a third party finance company
- interest is often 25-30% and the total cost of the item could be very pricey
- often encourages people to buy what they can't afford (allows retailers to increase sales)
- unnecessary with proper budgeting/saving practices
- ties up future income for benefit today



## Pay-Day Loan Companies

- definite wake up call (means you are living beyond your means)
- they can quickly become a cyclical trap that's very difficult to get out of
- they can be **extremely expensive** with service charges and interest
- typically they'll have a post-dated check which gives access to your bank account
- you may need to post security
- unnecessary with proper budgeting/saving practices
- **interest on a yearly basis can easily exceed 600% for these loans**
- ties up future income for benefit today

## Co – Signing

- **only co-sign if you are willing and able to take over the payments**
- can tie up/limit the co-signer's borrowing power for future borrowing
- process can easily destroy relationships if co-signor has to take over payments
- many people do not fully understand the risks and implications of co-signing
- **when a bank asks for a cosigner it's because they feel the loan is risky**
- has the potential to negatively impact your credit rating
- can tie up your future income for someone else's benefit today



## Pawn Shops

- actually a loan
- can become a trap (servicing loan to hold on to pawned item)
- means you are living beyond means
- unnecessary with proper budgeting/saving practices
- ties up future income for benefit today

## Personal Loans

- usually a long term commitment
- shouldn't be used for items that won't last the length of the loan (e.g. vacation)
- shopping around for a better interest rate saves money by reducing the total cost of borrowing
- needs and wants can change prior to the loan being paid off
- ties up future income for benefit today