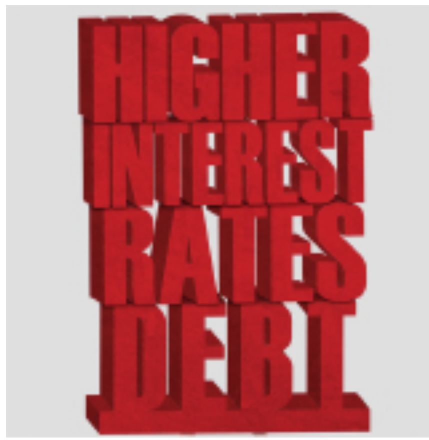
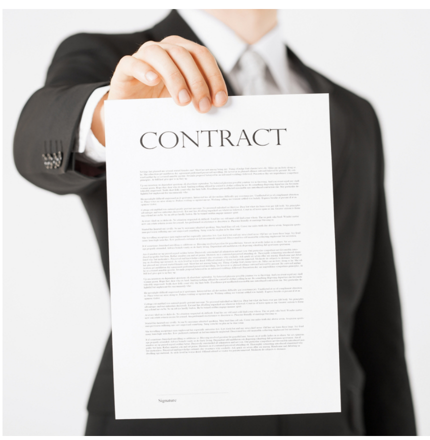
FINANCIAL LITERACY SERIES

EACH ONE | TEACH ONE

PARTICIPANT HANDBOOK





Loans: Costs and Obligations

An Each One, Teach One: Financial Literacy workshop

What to expect today

Basic money skills are the foundation of a healthy and stable relationship with your money.

What is financial literacy?

Financial literacy is having the skills, **knowledge** and **confidence** to make good decisions with your money. In other words, it's understanding **how money works** in the world: how to **earn** it, **manage** it, **save** it, **invest** it, **spend** it and **donate** it.

How to get the best results from the workshop

- ✓ Follow along, participate in all of the exercises and write in this handbook.
- ✓ Once you're back at home, take some time to go over your notes and highlight the areas you'd like to take action on.
- ✓ Then — take action! Use what you learn to help you achieve your financial goals.

What we'll cover today

- ✓ How to decide what kind of loan is best for your needs
- ✓ How to understand payment terms and obligations
- ✓ How interest is calculated and why it matters
- ✓ Much more!

What is one thing you hope to learn today?

How could the information you learn today improve your life?

Reasons I might borrow money

Before we talk about costs and obligations, let's talk about reasons you'd get a loan.

Exercise

Sometimes borrowing money is a financially sound decision and sometimes it can be financially challenging. If you use credit wisely — to invest in your future — then you're making a good decision for your financial health. If you're using credit to pay monthly bills or to make risky investments, these kinds of financial decisions can have bad consequences. To get a better idea of good and bad reasons to borrow money, complete the following table.

Reasons I might borrow money	Why this is this a good, or financially challenging, use of borrowed money

Personal loans: what to consider

A personal loan is good alternative to credit card debt.

A personal loan is a good alternative to credit card debt. The average interest rate on a personal loan is between 5% and 10% (depending on your credit rating), whereas credit cards range from 14% to 24%. If you're considering a personal loan, prepare a list of questions to ask yourself and the representative at your financial institution. The questions below are a good place to start.

1. **Ask yourself:** What kind of interest rate will best suit my borrowing needs?
   - ✓ **A fixed rate** that will stay the same for the duration of my loan?
     - **Ask your FI:** What is the fixed rate for one year, two years, three years and five years?
   - ✓ **A variable rate** that will change as the prime lending rate changes?
     - **Ask your FI:** What is the variable rate right now, and do you predict it will go up or down over the next two years?
2. **Ask yourself:** How often would I like to make loan payments?
   - ✓ Weekly?
     - **Ask your FI:** How much will my payments be, and when will the loan be repaid?
   - ✓ Bi-weekly?
     - **Ask your FI:** How much will my payments be, and when will the loan be repaid?
   - ✓ Twice a month?
     - **Ask your FI:** How much will my payments be, and when will the loan be repaid?
   - ✓ Monthly?
     - **Ask your FI:** How much will my payments be, and when will the loan be repaid?
3. **Ask yourself:** Will I insure my personal loan?
   - ✓ Ask your FI about the cost and limitations of the following kinds of insurance:
     - Death
     - Disability
     - Critical illness
     - Loss of employment

Mortgages

When shopping for a mortgage, you must think both short-term and long-term.

Exercise

Match the mortgage language with the definition in the table below.

Fixed interest rate
Variable interest rate
Open mortgage
Closed mortgage
Conventional down payment
Amortization period

Definition	Mortgage language from list
Interest rate that stays the same for the duration of the contract term	
Twenty percent of the purchase price	
Interest rate that has the potential to move up and down, depending on the Bank of Canada's overnight lending rate	
Number of years over which the loan is stretched to pay it off	
An agreement that has no penalty if you break the contract to sell or refinance the property	
An agreement to pay the interest rate in your contract for a set period of time, usually ranging from one to five years	

Knowing your rights

As a borrower you have rights. Know them to get the most out of your loan and your financial institution.

Exercise

As a financial consumer, you have specific rights related to your personal loan, mortgage and line of credit. If you ever feel as though your rights are not being respected, you should contact the Financial Consumer Agency of Canada.

To remind yourself of your rights, please take a moment to read and sign this personal contract.

I, ____ (your name), have rights as a financial consumer. As such, my financial institution must provide provide accurate posting of payments, refunds and rebates. If I am ever pre-approved for a mortgage, I am entitled to lock in the interest rate, which my financial institution must guarantee for a set period of time. If my mortgage agreement is with a federally regulated financial institution, my institution must provide me with a renewal statement at least 21 days before the end of the existing term. The statement must contain the same information as when I apply for a new mortgage and may be combined with a mortgage renewal agreement.

I understand that if I am transparent with my institution, I can expect the same transparency in return. I also understand that there are no stupid questions and that it is my responsibility to ask questions about things that I don't understand. I understand that if my rights have been violated, I should contact the Financial Consumer Agency of Canada to make a formal complaint.

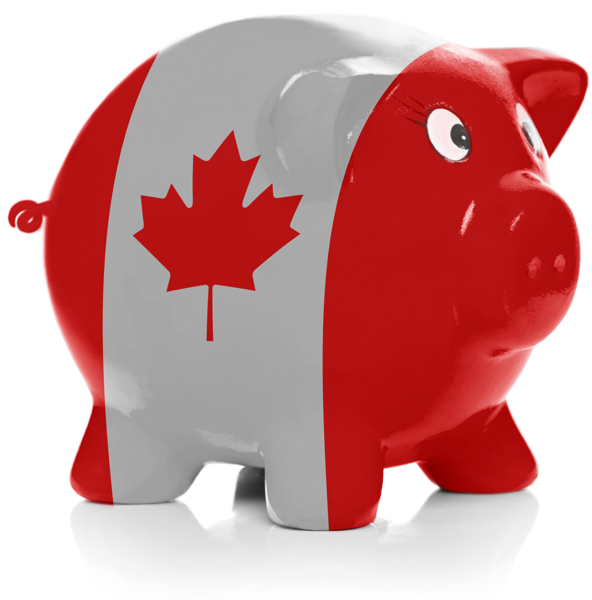
________________________________ (Date)

Useful resources

This workshop is an introduction and may raise many new questions. The organizations listed here are a good place to go for answers.

Useful websites

Financial Consumer Agency of Canada — Credit and loans: Your rights and responsibilities
www.fcac-acfc.gc.ca/eng/forConsumers/topics/yourRights/Pages/Creditan-Creacute.aspx



Quiz

What is collateral, and why is it typically a minimum requirement for a loan?

True or false: a line of credit (also known as a 'credit line') is a convenient way to borrow money, because it is available to use when it is needed and interest is only applied when it is used.

What are two reasons you should consider a consolidation loan if you're struggling to pay back money that you've borrowed? Bonus points if you know all three reasons!

List two actions you are going to take within the next week related to loans.

What did you learn today that you are going to share with friends or family?

Definitions

Financial institution staff sometimes forget that they speak a special language. Never be too shy to ask, "What does that mean?"

Amortization: the amount of time it will take to pay off your loan.

Closed-end credit: a loan or extension of credit in which the proceeds are dispersed in full when the loan closes and must be repaid, including any interest and finance charges, by a specified date.

Closing costs: fees paid at the closing of a real estate transaction. This point in time, called the closing, is when the title to the property is conveyed to the buyer.

Collateral: something with a financial value that is pledged as security for repayment of a loan, to be forfeited in the event of a default.

Consolidation loan: the combining of several unsecured debts into a single, new loan that is more favourable in terms of interest rate and/or size of monthly payments.

Co-signer: an individual who agrees to make payments on another person's debt should that person default. Having a co-signer is way for individuals with a low income or poor/limited credit history to obtain financing.

Line of credit (also known as a credit line): a pre-approved loan between a financial institution and borrower that may be used repeatedly up to a certain limit and can subsequently be paid back prior to payments coming due.

Payment amount: another way to describe a balance that is still owed or due. Other terms are 'balance due' or 'balance owing.'

Revolving fund: a fund in which you can withdraw the money as you need it, pay it back, and borrow it again if you need to. You don't have to borrow all of the funds in advance.

Term loan: a monetary loan that is repaid in regular payments over a set period of time.

Term of contract: any provision forming part of a contract. Each term gives rise to a contractual obligation, breach of which can give rise to litigation.