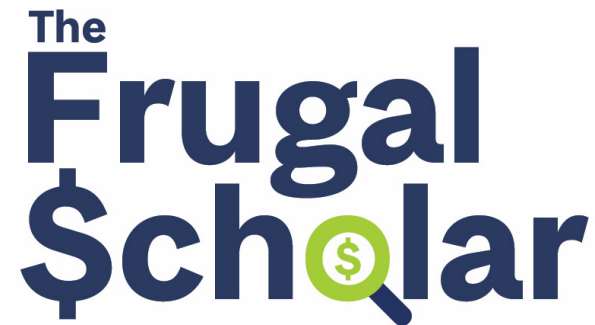


SCHOLARSHIPS AND STUDENT AID OFFICE

Credit and Debt Management



Part of the [Frugal Scholar Money Management Program](#)

Content in whole or in part courtesy of [Financial Consumer Agency of Canada](#)

McGill University is on land which has long served as a site of meeting and exchange amongst Indigenous peoples, including the Haudenosaunee and Anishinabeg nations. We acknowledge and thank the diverse Indigenous peoples whose presence marks this territory on which peoples of the world now gather.

About this webinar:



- Definitions: debt, loans and credit
 - What types of credit are available to me?
- Your attitude toward credit: personal factors
- Overview: forms of credit for students
- What is a credit score and how do I improve it?
- Good and bad debts
- The true cost of borrowing
- Borrower rights and responsibilities
- Debt management- after your studies
 - Repayment, debt remission and deferred payment
- Resources
 - How to apply for McGill Financial Aid
 - Other resources
- Final tips

Definitions

- **Debt**- money that you owe
- **Loan**- Money that you have borrowed, which you normally have to repay on a specified schedule, generally with interest
- **Credit**- the ability to borrow money or access goods or services with the understanding that you'll pay later, along with any finance or interest charges that may apply.
- What types of **credit** are available to me?
 - credit cards, student loans, lines of credit, informal loans, overdraft protection, personal loans, car loans, mortgage, deferred payment plans, rent-to-own contracts, payday loans, etc.
- Sources: <https://www.experian.com/blogs/ask-experian/credit-education/faqs/what-is-credit/>
<https://www.canada.ca/en/financial-consumer-agency/services/financial-toolkit/credit/credit-1/2.html>

How you feel about credit

- Your **emotions**, **habits** and **values** influence your attitude toward credit.
 - Past problems may make you uncomfortable with the idea of borrowing
 - ‘Keeping up with the Joneses’
 - The habit of buying whatever you want can be hard to break
 - Impulsive decisions
 - The influence of advertising
 - Be aware of the emotional factors that influence how you handle credit
 - Self-reflection



Credit Cards

- A credit card is a form of short-term loan
- Monthly statements
- Grace periods
- Interest charges
- Cash advances
- Balance transfers and related fees
- Over-the-limit fees
- Inactive account fees
- Distinct from a debit card, which draws money directly from your bank account



Don't have a credit card yet?

- [Choosing a Credit Card](#)
- [Credit Card Comparison Tool](#)
- [Credit Card Payment Calculator](#)

What you need to know:

- Annual interest rate and fee, if any
- How interest is calculated
- Grace period, if applicable
- How the minimum monthly payment is calculated
- When you will receive your statements
- Prepayment rights (and charges)
- Any applicable charges or fees

Credit Cards: Benefits and Risks



Benefits:

- Borrow money as needed
- Carry less cash
- Monthly statements summarizing your expenses
- Convenient online payments
- Limited fraud liability (\$50)
- Can help earn good credit score
- Possible warranties and other benefits

Risks:

- High interest rates
- May build up too much debt
- Can damage credit score if not paid regularly
- Easy to buy small items that add up quickly and affect your budget

Government Student Loans



- A bank loan for education costs
- Generally guaranteed by the government
- Tend to offer more favorable terms
 - lower interest
 - choice of fixed or floating interest rate
 - no payments during full-time studies
 - [Repayment Assistance Program](#), [Deferred Payments](#), etc.
- Some programs include grants (i.e. non-repayable funding)
- Interest paid on Canadian Student Loans is [tax deductible](#)
- ‘Good’ debt

(Student) Lines of Credit

- A pre-approved loan that allows you to borrow money as needed, up to a maximum amount
- Borrow, repay and borrow again based on your credit limit
- Often lower interest than other credit products with different repayment options
- The interest rate is often not fixed and can rise
- Potential borrowing option for students who do not qualify for government student loans
- Co-signer may be required
- Beware: minimum payment is interest only, and there is often no repayment schedule

Informal Loans



- **Money** that you borrow from a family member or other individual
- With larger amounts, it's valuable to have a formal agreement
- Provides quick access to cash if you have no alternative source of funding
- Family members may charge low or no interest
- **Beware:** some informal loans come through “loan sharks,” people who lend money at exorbitant or illegal rates of interest
- Can cause interpersonal problems if there is a misunderstanding on the terms or if you have difficulty paying back the loan

Overdraft Protection



- A financial product that allows you to cover the amount of a transaction when you go into overdraft
- An overdraft occurs when there's not enough money in your account to cover a payment or withdrawal
- Convenient if you are short of money at a particular time (e.g., if a bill is due just before your payday)
- Monthly or pay-per-use fees
- Basic or linked to another financial product
- Avoid declined transactions, late payment and non-sufficient-funds (NSF) fees
- Possible penalty charges if you do not repay the full amount on time
- Interest charges can be expensive

Buy Now, Pay Later

- Modern day lay-away: PayBright, After Pay, or a retail credit card
- Is it a budgeted expense?
- Is the purchase worth it the extra fees if you are not able to pay on time?
 - Service provider's late payment fee (\$10) and a NSF fee (\$45 to \$48)
- Do you need it now or can it wait?
- For a retail credit purchase, how does the interest rate compare to your other forms of available credit?
- A [2018 ASIC](#) review found the majority of buy now, pay later users admitted to spending more than they otherwise would.
 - One in six users said they had experienced at least one negative impact as a result of using buy now, pay later services, such as delaying bill payments, becoming overdrawn, or having to borrow money from family or other loan providers.

Credit Reports and Credit Scores

- **Credit Report:**

- A free, detailed report of your credit history
- Check your credit history at least once a year – make sure there are no errors
- Request a free credit report by mail or over the phone from:
 - www.Equifax.ca or www.transunion.ca

- **Credit Score:**

- number that summarizes your credit information at one point in time
- Scale ranges from 300 to 900
- Credit score is available for a fee
- used by lenders and others to judge if you are financially responsible or 'creditworthy'
- the higher your score, the lower the risk for the lender



Factors that affect your credit score:

- how long you've had credit
- how long each credit has been in your report
- if you carry a balance on your credit cards
- if you regularly miss payments
- the amount of your outstanding debts
- being close to, at or above your credit limit
- the number of recent credit applications
- the type of credit you're using
- if your debts have been sent to a collection agency
- any record of insolvency or bankruptcy

How to Improve Your Credit Score:

- Your **payment history** is the most important factor
 - always make your payments on time
 - make at least the minimum payment if you can't pay the full amount that you owe
 - contact the lender right away if you think you'll have trouble paying a bill
 - don't skip a payment even if a bill is in dispute
- Increase the length of your credit history
 - Consider keeping an older account open even if you don't need it
 - Use it from time to time to keep it active
 - Make sure there is no fee if the account is open but you don't use it
 - Check your credit agreement to find out if there is a fee
- Use your credit wisely
 - Try not to go over the authorized credit limit
 - Use less than 35% of your total available credit

How to Improve Your Credit Score, continued:

- Limit your number of credit applications or checks. Too many credit checks may lead lenders to think:
 - you are urgently seeking credit
 - trying to live beyond your means
- Get your quotes from different lenders within a two-week period when shopping around for a car or a mortgage. Your inquiries will be combined and treated as a single inquiry for your credit score.
- “Hard hits” vs. “soft hits”
- Use different types of credit

“Good” vs. “Bad” Debt

- **Good debt** is an investment in something that creates value or produces more wealth in the long run.
- **Bad debt** is debt taken on to buy something that immediately goes down in value or to buy something that you can't repay on time and in full, thus incurring interest charges and more debt.

The True Cost of Borrowing

- **Example:** Suppose you want to buy new lap top that costs \$1,000. You can't afford the full purchase price, so you are considering whether to use a MasterCard or Visa credit card, a line of credit from your bank or a rent-to-own contract.

Type of Credit	Terms	Months of Payment	Interest Rate	Total Interest Paid	Total Amount Paid
Credit Card	Minimum monthly payment of \$40 or 4% of purchase price	32	18%	\$262.70	\$1,262.70
Line of Credit	*Minimum monthly payment of \$40, or 4% of purchase price	27	6%	\$64.50	\$1,064.50
Rent-to-own	2-year contract with payments of \$80/month	24	Works out to 72.5%	\$920.00	\$1,920.00

*Interest rate is tied to prime rate which can change. Calculated with the assumption that interest rate remains at 6%.

Borrower Rights and Responsibilities

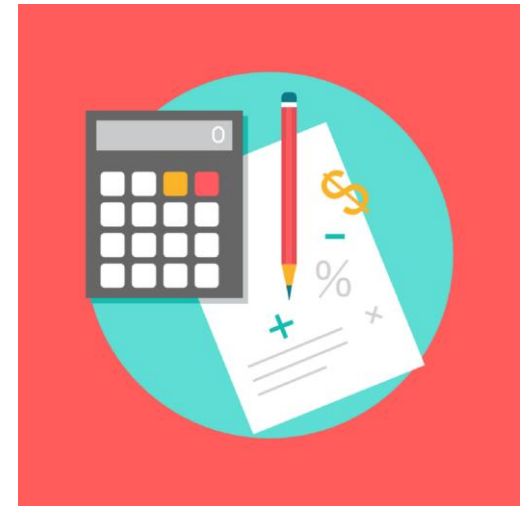
You have the right to:

- Receive a copy of the loan agreement – credit card terms
- Repay debt at any time in full or in part
- Interest rate option; fixed or variable
- Choose payment date, with most creditors

You are responsible for:

- Interest as per credit terms
- Updating address with financial institutions/creditors
- Repaying all debts in full and on time
- Borrowing only what you can repay
- Understanding your loan agreement before you sign it
- Understanding your account statements
- Keeping records of your loan agreement and repayments

Debt Ratio



- **Debt Load**- the total amount that you owe
- **Debt Ratio**- your monthly debt payments relative to your income
 - Monthly debt payments: \$200
 - Monthly income: \$2,000
 - Debt ratio: $200 / 2,000 = 10\%$
- Keep debt ratio for **consumer debt** *below* 20%
- Keep debt ratio for **total debt** (including mortgage) *below* 40%
- Build an action [plan for repayment](#)

Managing Repayment



- Know that there are many options for dealing with debt
- Know when and how much you are expected to pay each month
- Schedule payments in a way that works for you
- Pay your highest interest rate loans first
- Make an appointment for one-on-one advising with a McGill Financial Aid Counsellor
- If you are having trouble making your payments, contact your lender to see if the repayment terms can be revised
- Consult a not-for-profit credit counsellor or a trusted financial professional
- Canadian and Quebec Student Loan: Repayment Assistance Program or Deferred Payments
- Create an [Action Plan](#) using the interactive PDF provided by the Financial Consumer Agency of Canada

What can I do to manage my debt load right now?

- Managing your spending now can mean a light debt load down the road: make a reasonable budget and track your expenses to make sure you stick to your plan.
- Check out our [Cheap Sheets](#)
- Tune into our [recorded workshop](#) 'Budgeting 101'
- Make a financial plan for the course of your degree and calculate what is a manageable amount to borrow per year
- Try not to borrow more than you need
- Ensure you are using the best borrowing options available to you
- Research the complete costs of your different borrowing options before deciding which one is right for you
- Working during your studies will help reduce the amount you need to borrow

Resources: we are here to help!



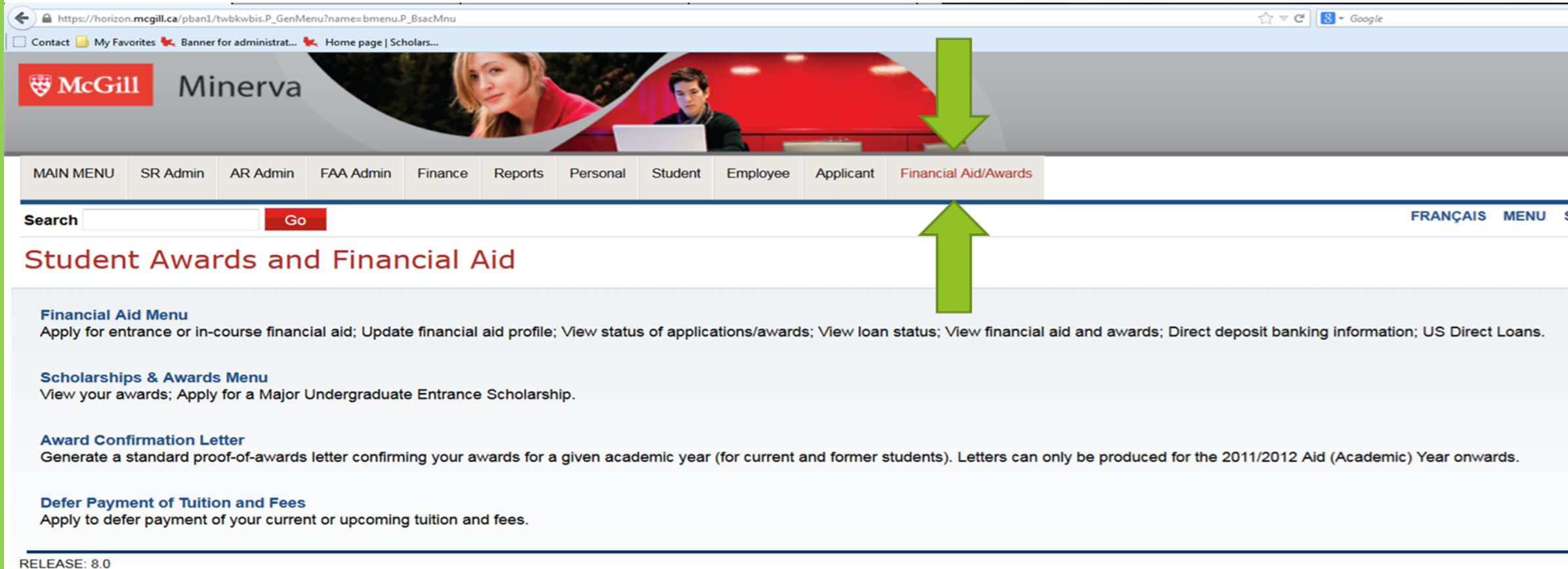
- Offering one-on-one advising and workshops on financial matters including:
 - Budgeting
 - Debt management
 - Loan repayment
- Administering 14 government aid programs
 - Support with applications and appeals
- Administering McGill's need-based financial aid programs
 - Modest McGill Interest-free Loans and Bursaries- no core funding
 - Work Study
 - Emergency Cash loans
 - Fee deferrals
 - Mobility Bursary for Exchange
 - Enriched Educational Opportunities (EEO)

McGill Financial Aid: How to apply

- Anytime in the academic year
- Minerva application
- Prompted when need to schedule one-on-one appointment with a Financial Aid Counselor
- Tailored package, disbursement schedule/mode of payment

McGill Financial Aid: How to apply

- MINERVA> Financial Aid and Awards> Financial Aid Menu> Apply for McGill Financial Aid



The screenshot shows the McGill Minerva website interface. At the top, the browser address bar displays the URL: https://horizon.mcgill.ca/pban1/twbkwbis.P_GenMenu?name=bmenu.P_BsacMnu. Below the browser bar is a navigation menu with the following items: MAIN MENU, SR Admin, AR Admin, FAA Admin, Finance, Reports, Personal, Student, Employee, Applicant, and Financial Aid/Awards. The 'Financial Aid/Awards' item is highlighted in red. A green arrow points down to this menu item. Below the navigation menu is a search bar with the text 'Search' and a 'Go' button. To the right of the search bar are links for 'FRANÇAIS' and 'MENU'. Below the search bar is a section titled 'Student Awards and Financial Aid'. Under this section, there are four sub-menus: 'Financial Aid Menu' (with a description: 'Apply for entrance or in-course financial aid; Update financial aid profile; View status of applications/awards; View loan status; View financial aid and awards; Direct deposit banking information; US Direct Loans.'), 'Scholarships & Awards Menu' (with a description: 'View your awards; Apply for a Major Undergraduate Entrance Scholarship.'), 'Award Confirmation Letter' (with a description: 'Generate a standard proof-of-awards letter confirming your awards for a given academic year (for current and former students). Letters can only be produced for the 2011/2012 Aid (Academic) Year onwards.'), and 'Defer Payment of Tuition and Fees' (with a description: 'Apply to defer payment of your current or upcoming tuition and fees.'). A green arrow points up to the 'Financial Aid Menu' sub-menu.

RELEASE: 8.0

Where to find us...

- **Downtown:** Brown Student Services Building, 3600 McTavish, Suite 3200
- Hybrid service: in-person and virtual appointments
- ‘Go back to your app’ frequently!
- Rotational presence at Macdonald Campus
- **Contact:** 514-398-6013 or alternatively; student.aid@mcgill.ca
- **Website:** www.mcgill.ca/studentaid/

Other Resources

- Follow us on [Twitter](#) @McGillAid and [Instagram](#) @mcgillstudentaid
- Like us on [Facebook](#) @McGillAid
- [Credit Canada](#)
- [Financial Consumer Agency of Canada](#)
 - [Budget Planner](#)
 - [Credit Card Comparison Tool](#)
 - [Paying Back Student Debt](#)
 - [Getting Help from a Credit Counsellor](#)

Final Tips

- Be informed on the credit products available to you
- Compare your credit product options
- Make a budget and review it regularly
- Consider your estimated debt load relative to your employment prospects/ expected salary
- Keep track of your total debt with the [Frugal Scholar Toolkit](#)
- Taking care of your credit will help you take care of your financial wellness
- Need some help? **Remember we are here to help!** Contact us at student.aid@mcgill.ca

THANK
YOU!