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Dealing With Credit

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Credit, well managed, can be a useful financial tool. If it's not well managed, you could end up looking for ways to get out of serious debt.

This module has information about credit reporting, credit trouble signs, credit and debit card use, co-signing, creditor actions when a debt isn't paid, collection rules, bankruptcy and where to go for help.

DO YOU KNOW YOU HAVE A CREDIT RATING?

Your credit history or credit rating starts from day one — the first time you get a credit card in your name, open a savings or chequing account, get a loan or line of credit from a financial institution, or even a subscription to a CD/DVD or video club. Virtually everyone has a credit history.

Credit reporting agencies are in the business of gathering credit information to establish your credit history and your credit worthiness. When you apply for a credit card, ask for a loan, look for a job, buy insurance or even want to rent a place to live, the potential lender, landlord, employer, or insurance company as a member of a credit reporting agency, may buy credit information about you. They can also report your credit history with them to the credit reporting agency.

Information about your credit file

In Alberta, the *Consumer Protection Act* and the Credit and Personal Reports Regulation identify what can be included in and released from your credit file. The tipsheet *Your Credit Report* has information about:

- What information can and cannot be included in a credit file,
- How you find out what is in your file,
- How to correct inaccurate information in the file,
- When and to whom a reporting agency can provide your report to someone, and
- How to build a good credit record

Checking your credit file

There are two main credit reporting agencies in Canada, **Equifax Canada Inc.** and **Trans Union of Canada Inc.** These private agencies collect information about borrowers from their credit grantor members and allow them to access this information for a fee.

You can get a copy of your report through their websites for a fee or through the mail at no charge. Contact each for more information about the process and the identification required (see page 7).

Remember, if you find information on the file that you disagree with, you have a right to explain or protest the entry. See the tipsheet **Your Credit Report.**

The legislation also says that if you have lost money, suffered damages or been inconvenienced because a credit reporting agency did not follow the rules, you may have the right to sue the agency for damages.

Credit Trouble Signs

You know you have a debt problem when you:

- Frequently pay bills after their due date
- Bounce cheques regularly (insufficient funds)
- Use an advance from one credit card to pay the minimum amount on another card
- Receive a call from a collection agency
- Regularly ask friends or family for loans
- Have your utilities cut off for non-payment
- Regularly use storefront cheque-cashing services or payday loan companies.

CREDIT CAN BE JUST ANOTHER WORD FOR DEBT

Ideally credit spending is planned spending. The payments should be included in your monthly spending plan, or credit will be debt trouble. See Reality Choices - **You and Your Money** for more information about spending plans.

With options of no money down, easy credit terms, rent to own, interest payments that don't start for six months, credit cards in every pocket — it's very easy to get into debt. So before you sign up, think about how much debt you can afford.

Think twice before using credit cards or loans that will result in debt used to subsidize your income or your lifestyle. Credit problems will stay with you for several years and could affect your future plans.

Perhaps you don't really need short-term credit such as credit cards and lines of credit. The amount that you would be paying in interest could be spent on other things.

"I buy when I have the money, or when I know I can honour the payments on time."

CREDIT CARDS

Credit cards can be convenient and are even necessary for some purchases, such as those made online. But convenience can have a price — credit cards can have a significant impact on your budget when you don't pay the balance in full when it's due.

The next time you get a credit card bill, check out the annual interest rate for overdue or not-paid-in-full accounts. It may be higher than what financial institutions ask you to pay on loans or lines of credit. Credit card rates typically range from 9 percent to 29 percent. Shop around for the best card. If you're not paying off your credit card bills monthly, you may be paying high interest charges.

If you are going to use a credit card, find out which one is the best for you by using Industry Canada's free [Credit Card Cost Calculator](#).

Choosing the right credit card based on your own spending and paying habits can save you a lot of money. Cards vary in their interest rates and suitability for individual consumers.

Credit card tips

- Save money by paying cash or paying the entire credit card balance when it's due (interest on unpaid balances adds up fast).
- Know how much you're paying in interest, and shop around for the best rate.
- Keep the number of cards you have under control — the fewer the better.
- A low credit limit will force you to use discipline. Ask a financial institution to lower your limit. If you shop on the Internet, a low credit limit can limit the damage if your credit card number goes astray.
- A line of credit, usually at a lower rate of interest, may be helpful in paying off credit card debt.
- If your card is lost or stolen, Alberta's [Consumer Protection Act](#) states you are responsible for a maximum of \$50 that anyone else may put on your card.

- Make a list of your credit card numbers and contact information in case your cards are lost or stolen. Keep this list in a secure place.

THE PERILS OF CO-SIGNING AND JOINT DEBT

Be cautious if someone asks you to **co-sign** a credit contract. Co-signing carries serious obligations. You are promising a financial institution that you will make the payments or pay off the loan if the other person is unable to do so. Could you really afford to pay the entire amount yourself?

Review your friend's or relative's position. There is probably a good reason why the financial institution requires a co-signer. You'll probably discover the applicant isn't a good credit risk in their eyes.

Joint debt such as utilities in your name and your roommate's name, and joint credit cards can also cause problems.

If the person doesn't keep up co-signed payments, or doesn't pay his or her share of the utility bill or the credit card, you will be responsible. The outcome could be collection agencies calling you or a court judgment made against you for the amount of the debt owing. This could affect your credit record and your own budget.

If it Sounds Too Good To Be True...

What about those "no interest for six months" ads? Read the fine print. If you don't pay off the entire bill within the six months, you'll probably find that the interest clock started ticking the moment you made the purchase.

Similarly, rent-to-own schemes may cost much more than other ways of paying, such as with cash, a loan or your credit card, even if their monthly payments seem small.

DEBIT CARDS (NOT REALLY CREDIT BUT)

Using a debit card is like using cash: you may pay a transaction fee, but as long as you have money in your account you won't have to pay interest. However, there are things to consider when getting a debit card:

- In many cases your financial institution may not send you a detailed report of your purchases. This can make record keeping confusing and difficult, making it harder to keep on top of things. Your record keeping needs to be very accurate.
- Ask your financial institution to send you a detailed monthly report of your purchases. See if you can receive it at a student rate or at the lowest possible cost.
- Your debit card might be attached to a line of credit, which makes it very easy to overspend — and costly too. The debit card now becomes credit.
- If something goes wrong and someone gets your card and personal identification number (PIN), they could make a fraudulent purchase or withdrawal. You'll probably lose the money, with no recourse. If your debit card is attached to a line of credit, the thief could clean out your line of credit too.
- If you have a debit card, keep your PIN and card in separate places.

I'M IN OVER MY HEAD. WHERE DO I GO FOR HELP?

Remember the **credit trouble signs** on page 2? If you can relate to one or more of them, it's time to stop and reorganize your finances. Take action before creditors start taking action.

Your first step is to gather all your information: income, expenses, debts, and which debts are secured and by what means. You need to know your exact situation.

Money Mentors

Money Mentors, is a not-for-profit consumer debt counselling service that offers a number of debt repayment options. They are the only organization in Alberta legislated to provide the Orderly Payment of Debts program.

Money Mentor's staff have specialized knowledge in family financial management and consumer debt handling strategies. They will work with you to develop the best solution for your personal situation.

Money Mentors provides:

- A free financial needs assessment;
- Workshops on debt-management strategies;
- Brochures and information sheets on credit and debt issues;
- A consumer repayment program called orderly payment of debts;
- Information on how to prepare a repayment plan to present to creditors (or they can prepare the plan for you for a small fee); and
- Referrals to other agencies and services.
To contact Money Mentors, see page 7.

Other options

Talk to your creditors and try to reschedule your payments.

Consider a debt consolidation loan. Interest rates are usually lower than credit card rates. You may need a cosigner or other security, or both.

Loan brokers

Consumers may turn to loan brokers who often advertise in the classified sections of newspapers, on television and over the Internet. Loan brokers may charge fees in addition to interest. Alberta's cost of borrowing legislation states that these fees are to be used in calculating the annual percentage rate.

Advance fee loan brokers

Loan brokers may charge a fee but some loan brokers want you to send them money before you get the loan. In Alberta it's illegal under the [Consumer Protection Act](#) for a loan broker to charge a fee, whether it's called a "deposit," "insurance" or just an "administrative fee" to borrowers before they get the money.

Some borrowers have been known to send fees ranging from \$200 to \$1,500 to companies and never received their loan. They ended up with even less money to work with. If you find you are dealing with an advance fee loan broker, contact [Service Alberta](#) (see page 7).

Other possible sources of money

Storefront loan offices and cheque-cashing services advertise as sources of quick money. These are often more expensive than other alternatives. Most likely, you'll be charged a high interest rate and/or high fees. Consider other options. You may be better off with a loan or line of credit.

For another money source see the tipsheet [Payday Lending](#).

WHAT CAN CREDITORS DO?

Credit repair companies

Credit repair companies claim to act on your behalf to improve your credit file — fast — but for a fee. This fee is often as high as \$1,500. In reality, no credit repair company has the power to change or erase accurate information in any consumer's credit file — information such as a history of late payments. The only way to improve a poor credit rating is to work with your creditors and show that your payment habits have improved.

Creditors, depending on the type of contract they have with you, have a number of actions they can take if you are behind in payments such as:

- Cut off services like power, cable, gas and telephone
- Ask any co-signer to pay
- Hire a collection agency
- Seize assets that you have given as security
- Take you to court

For more details about seizing assets, court processes and other creditor actions see the tipsheet [What Creditors Can Do If You Don't Pay](#).

The Alberta Justice book [Commencing a Claim in Provincial Court Civil Division/Getting and Collecting Your Judgment in Alberta](#) is also available at Provincial Court locations.

Collection agencies

Businesses and creditors can hire a collection agency to collect unpaid debts. While the agency has the authority to collect debts, in most cases, the creditor, not the collection agency, makes the final decision about how the debt is handled.

Alberta's [Consumer Protection Act](#) outlines the rules that collectors and agencies must follow when dealing with debtors. The tipsheet [Bill Collection and Debt Repayment](#) will tell you:

- Who has to follow these rules,
- What collection agencies can and cannot do,
- How you can protect yourself, and
- Who to contact if a collector is not following the rules.

If you believe a collector is not following the rules, contact [Service Alberta](#) (see page 7).

BANKRUPTCY

Bankruptcy should be the last alternative if you cannot meet your financial responsibilities through affordable payments over a specific period of time.

Bankruptcy is a serious step with many consequences and it may not be the solution to your difficulties in trying to manage your finances.

When you declare bankruptcy, your property minus any exemptions under provincial or territorial law is given to a trustee, who then sells it and distributes the resulting money among your creditors. With certain exceptions, you are no longer responsible for any debts you have accumulated.

Immediate effects of bankruptcy

- Certain debts are erased entirely: credit card, medical and utility bills, etc.
- Other debts remain: child support, alimony payments, etc.
- Student loans less than 7 years old are not discharged in bankruptcy. You must give up assets that are not exempt. You may be able to keep your car if you can prove that you need it for work. For information about Alberta exemptions see the tipsheet [What Creditors Can Do If You Don't Pay](#).
- Unsecured creditors can no longer take legal steps to recover your debts. They can no longer threaten action against you.
- To declare bankruptcy, you must pay a filing fee as well as a fee to the trustee who handles the bankruptcy.

Future effects of bankruptcy

- Any future credit you obtain may be more expensive.
- You may have trouble getting bonded, a requirement for certain jobs.
- Your bankruptcy remains on your credit file for 6 years after discharge, unless you have been bankrupt more than once. If this is the case, it may remain on your file longer.
- Bankruptcy may result in negative consequences in other areas of your life including the attitudes of your family, friends and community.

For more information about bankruptcy, contact Industry Canada's **Office of the Superintendent of Bankruptcy**.

FOR MORE INFORMATION

Service Alberta

Consumer Contact Centre
Edmonton: 780-427-4088
Toll-free in Alberta: 1-877-427-4088
www.servicealberta.ca



Alberta Youth Consumer Champions

<http://www.facebook.com/youthconsumerchampions>

Money Mentors

Offices located in Edmonton, Red Deer, Calgary, Lethbridge, and Grande Prairie
Toll-free in Alberta: 1-888-294-0076
www.moneymentors.ca

Office of the Superintendent of Bankruptcy

Industry Canada

Calgary: 403-292-5607
Edmonton: 780-495-2476
www.ic.gc.ca/eic/site/bsf-osb.nsf/Intro

Credit Reporting Agencies

Equifax Canada Inc.

Toll-free: 1-800-465-7166
www.consumer.equifax.ca/home/en_ca

Trans Union of Canada Inc.

Toll-free: 1-800-663-9980
www.transunion.ca

REFERENCES

For this module, Dealing with Credit, be sure to print the following referenced tipsheets.

- [Bill Collection and Debt Repayment](#)
- [Payday Lending](#)
- [What Creditors Can Do If You Don't Pay](#)
- [Your Credit Report](#)

These are located on the Service Alberta website at [www.servicealberta.ca/Consumer Tipsheets.cfm](http://www.servicealberta.ca/Consumer_Tipsheets.cfm)

Other links referenced in this module

Service Alberta: Reality Choices

[You and Your Money](#)

www.servicealberta.ca/561.cfm

Industry Canada

[Credit Card Costs Calculator](#)

www.ic.gc.ca/eic/site/oca-bc.nsf/eng/ca01812.html

Alberta Justice

[Commencing a Claim in Provincial Court](#)

[Civil Division /Getting and Collecting Your](#)

[Judgment in Alberta](#)

www.albertacourts.ab.ca/pc/civil/publication/collecting_your_judgment_in_alberta.pdf