

Hi! A mathematical formula calculates your credit score using the information from your credit report. Some of the important features that you'll want to compare are the annual interest rates, annual fees, other fees charged for various types of transactions like cash advances, foreign currency transactions, balance transfers, and many others. Some of the practical uses of this module is that, for example, it's going to help you understand how you can use credit in everyday purchases, but try to avoid paying unnecessarily high interest rates or how you can manage your credit behaviour so that when you do need to borrow, in the long term, like buying a house, you'll be able to do so. Now, let's talk about the concept of credit worthiness and how our credit history impacts our ability to borrow money and how much it costs us to do so. So how do creditors assess our credit behaviours? Once your total mortgage amount is determined by taking the purchase price of the property, subtracting the down payment amount and adding any additional insurance fees or other costs, you'll need to determine what type of mortgage is most appropriate for you. When drawing up a mortgage contract, some of the important features that you'll need to select involve the following: the amortization period, this represents the length of time it will take you to repay the entire mortgage including both the principal and interest. Anytime you've had non-sufficient funds payments or written bad cheques, any chequing and savings accounts that have been closed for cause due to money owing or fraud committed. How long you've had credit for, if you have an outstanding balance on your credit cards, this includes any joint credit cards, if you regularly miss payments, the amount of your outstanding debts, being close to your credit limit, the number of times you tried to get more credit, the types of credit you are using, if your debts have been sent to a collection agency, any record of insolvency or bankruptcy. First, I'll provide an overview of some of the more common sources of debt identifying their basic features and some key considerations that you should be taking into account when determining which sources of debt are most appropriate for you. For example, depending on the credit card that you obtain, you can earn loyalty points for purchases made using the card that can then be redeemed for other goods and services such as hotels, flights, etc. It behaves similarly to a debit card in that you can use the funds to withdraw cash, pay for purchases or services in store and transfer balances to other accounts or pay bills. While lines of credit and credit cards can be used almost interchangeably with cash, there are often specific, more tailored financing options available to you for larger, more significant asset purchases. Have a look at RBC's online mortgage calculator to see how different payment variables affect your overall mortgage payment, the total interest you will pay on your mortgage, and the time it will take you to repay the loan in full. It's also important to understand how the mechanics of regular transactions accrue interest and what it means to pay the minimum monthly balance versus the entire outstanding debt. The underlying asset that you're paying for can be repossessed by the lender and this provides them with additional security for their loan. The mortgage contract is generally fixed for the term and any changes that need to be made before the term expires usually come at a cost of penalties or additional fees. Creditors, lenders, landlords, employers and other parties like insurance companies, utilities and mobile phone companies are able to access your credit report in order to view your credit history and credit score. Before engaging in high amounts of debt, make sure that you will be able to abide by the restrictions imposed on those debts. I'm a chartered professional accountant and a professor at Desautels Faculty of Management at

McGill University. However, there is a cost to debt and bearing in mind that you must repay it along with all of the other interest and fees that are associated with it. It's very important to make an informed and educated decision about what forms of credit you can use. When you make a purchase using a credit card, either physically in store or using the credit card information online, the issuer is providing the funds directly. They're linked to smartphone applications and most credit cards can often be used internationally, which is convenient for someone who travels often. The Government of Canada has great resources available to you online, on their website, related to debt and borrowing where you can compare all of the credit cards available in terms of the costs, benefits and features, which can help you choose the card that best fits your needs. The differences will usually relate to the credit limits, interest rates and limitations of the loans. The risk to the lenders in these circumstances is lower because in the event that someone is unable to make the required payments, the lender has collateral on their loan. Let's walk through some of the mechanics of mortgages, how they work and some of the key considerations you will need to have when applying for a mortgage. Ideally, these funds will come from money that's been saved and there are programs that allow you to use your savings from your RRSPs towards this down payment. This provides the financial institution additional protection in the case of defaulted payments. Once the mortgage term expires, you'll need to either renew the balance of the loan, refinance the loan or pay it off in full. The primary benefit to a fixed interest rate is that your mortgage payments will remain the same for the term of your contract regardless of any changes in the market interest rates. However, you'll be required to pay fees for this change and the new fixed interest rate will likely be higher than the rate initially offered to you at the time you originally signed for your mortgage. Another feature you will need to determine is the frequency of the mortgage payments, meaning how often you will make the payments. That you'll be able to make all of your necessary payments and that you have a plan to ultimately repay the debts that you owe. Throughout this module, we are going to address just that by discussing the following debt and borrowing topics. We'll finish off with some key takeaways or cardinal rules for borrowing. One of the most obvious benefits to borrowing money is that you're able to buy things or have experiences now that you wouldn't otherwise be able to do like going on a trip, buying furniture, buying a car or a home. Generally, when comparing the different sources of credit, you'll need to consider the credit limit available to you, meaning; how much money are you able to borrow using this source? Credit cards are widely accepted as valid forms of payment and often required for virtual purchases. However, there are cards that charge lower interest rates, but they may have annual fees or other cards that may have higher rates and have other benefits. If you refer to the column on the right, you'll see that the minimum balance is indicated. You can often write personal cheques from a line of credit and, if you have other chequing or saving accounts with the same bank, you can often set up your overdrafts to transfer directly to your line of credit in order to avoid paying certain fees. And it will not accrue interest and will generally not have any significant fees to pay. If you had borrowing room available to you on a line of credit that charges 9%, you would then be able to transfer your outstanding credit card balance to your line of credit and you'd be able to benefit from lower overall interest payments. One of the more notable risks with a line of credit relates more to people's behaviours and habits when it comes to using them. Depending on the purchase price, the minimum

down payment percentage ranges from 5% to 20%. If your down payment saved is less than 20%, along with other factors such as being self-employed or having poor credit history, you will need to purchase mortgage loan insurance. When you obtain a mortgage, you need to select various terms. However, depending on your specific needs, the term can be shorter or longer and can be open, meaning it can be changed with applicable fees and charges. The payments made in the earlier years will go mostly towards interest and as you approach the end of the amortization period, more and more of your payments will contribute to paying down the principal component of your loan. If the rates were to decrease, you would also benefit from lower mortgage payments. Certain mortgages will allow you to initially select a variable interest rate and then later lock in a fixed interest rate. This can be done monthly, semi-monthly, biweekly, weekly. I cannot stress enough how important it is that you speak with a trusted financially literate advisor before making any major decisions involving debt. From this report, they're able to see the type of credit that you're using and how responsibly you're using it. Your report contains information about the credit you use including credit cards, retail or store cards, lines of credit and loans. If you've consistently demonstrated good credit behaviour, this will appear on your credit report as well and positive information, such as making regular payments on time, can remain on your report for a longer time period. This score helps creditors assess your credit behaviours and how risky it will be for them to lend you money. Additionally, having good credit worthiness will often allow you to have more preferential interest rates. It will also allow you to detect any errors or anomalies like identity theft.