

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 good bought.
- The card, for many people, 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 for 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 enough).
- Roughly 50% of Canadians only pay the minimum monthly payment.
- It ties up future income for benefit today.

Overdraft

- Is actually a loan.
- It becomes a cyclical trap (it is paid off on payday but the money is often needed prior to the next payday so it gets used again).
- Is 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 Loans

- 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 any time).
- 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 intent 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.

Payday Loan Companies

- Definite wakeup call (means you are living beyond your means).
- They can quickly become a cyclical trap that is very difficult to get out of.
- They can be extremely expensive with service charges and interest.
- Typically they'll have a post-dated cheque 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-signers borrowing power for future borrowing.
- Process can easily destroy relationships if co-signer has to take over the payments.
- Many people do not fully understand the risks and implications of co-signing.
- When a bank asks for a co-signer 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 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 (eg. 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.

