

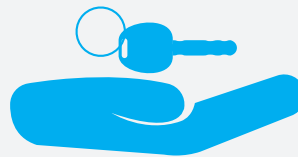
BORROWING: CHOOSING THE RIGHT TYPE OF CREDIT

Financial education at school:
An AMF activity for teachers.



STUDENT SHEET

TYPES OF CREDIT



Give one example of each type of credit.

Type of credit	Definition
Personal loan	<ul style="list-style-type: none"> – For specific projects. – The total amount of the loan, the interest rate that will apply and the frequency of repayments are determined when the loan is taken out and can therefore be budgeted. – The maximum repayment period and applicable interest rate vary greatly depending on the financial institution.
Example	
Credit card (used for purchases)	<ul style="list-style-type: none"> – A loan which allows a person to make purchases up to a predetermined limit. – Interest isn't charged if the full balance is paid by the due date shown on the statement. – Minimum amount to be paid. – Several cards offer convertible rewards into vouchers under various loyalty programs. – These benefits can be expensive if you don't pay the balance on the card. – The interest rate charged is higher than that of a line of credit.
Example	
Credit card (used for a cash advance)	<ul style="list-style-type: none"> – Works differently than for purchases. – Interest is charged as of the date cash is withdrawn, regardless of when the money is paid back. – If the withdrawal is in foreign currency (such as when travelling), expect to pay currency conversion fees charged by the financial institution. – There may be a fee for each cash withdrawal, such as \$3.50.
Example	

Type of credit	Definition
Québec student loans	<ul style="list-style-type: none"> – Designed to help people who want to do post-secondary studies but can't afford it. – Studies must take place in an establishment recognized by the Ministère de l'Éducation et de l'Enseignement supérieur. – The person must be eligible. – The student must start repaying the loan when the studies are completed at the rate negotiated with the financial institution
Example	
Line of credit	<ul style="list-style-type: none"> – Available any time. – Lets you pay for unexpected expenses. – You can pay all or part of it back any time. – Minimum amount to be paid back. – You need to be disciplined to pay back promptly what you borrow to avoid paying a lot of interest.
Example	
Student line of credit	<ul style="list-style-type: none"> – To add to or replace a student loan. – During their studies, full-time students only pay interest on the amount used. Part-time students may be required to make a minimum payment of principal and interest. – The repayment period is between 5 and 10 years. – Requires careful budgeting to avoid building up debt exceeding the student's ability to pay it back or affecting the student's financial health.
Example	



WORKSHOP CREDIT CASE STUDY

Nick's tablet

Nick is starting CEGEP this fall. Since his computer is broken, he has decided to buy a tablet. Unfortunately, he can't afford it since he spent too much money over the summer with his friends. How will Nick pay for his tablet?

Describe the factors Nick should consider before he chooses one of the following three sources of credit: credit card, line of credit or cash from his government student loan. Find the applicable interest rates on the Internet, for example on financial institution websites. Then explain what type of credit Nick should choose.

Type of credit	Factors to be considered
Credit card	
Line of credit	
Money from student loan	
Explain your choice	