Teacher's Guide

BORROWING: CHOOSING THE RIGHT TYPE OF CREDIT

Financial education at school:
An AMF activity for teachers.

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AUTORITÉ DES MARCHÉS FINANCIERS

CLASSROOM ACTIVITY

BORROWING: CHOOSING THE RIGHT TYPE OF CREDIT

Presentation of workshop

Target audience	*Secondary V students*
Approximate duration	*50 minutes*
Description	*Students choose what type of credit is the most appropriate for a given situation.*
Objectives	*– Explain when credit should be used.* *– Name the main types of credit contracts.* *– Choose the right kind of credit.* *– Indicate the main ways of paying for studies.*
Materials required	*– Credit case studies*

Suggested procedure

STEP	ACTIVITY	MATERIALS REQUIRED	APPROXIMATE TIME
1	*The teacher presents the theory using the method of his/her choice.*	*Board*	*15 minutes*
2	*Students fill out the Student Sheet while the teacher is talking.*	***Student Sheet – Types of credit***	-
3	*In teams of four, students work on the Credit Case Study.*	***Workshop - Credit Case Study***	*25 minutes*
4	*The teams present their results and the teacher adds to the answers as needed.*	***Workshop Results***	*10 minutes*

STEP 1

THEORY:
THE DIFFERENT TYPES OF CREDIT

Definition of credit

Credit is the borrowing of money, at a cost. The money must be paid back at a certain time. There are advantages and risks to borrowing. Can you name some of them?

Examples :

ADVANTAGES	RISKS
– Pay for unexpected expenses. *– Pay for a large purchase such as a car or a house.* *– Buy immediately without waiting until you've saved enough.* *– Accumulate rewards, such as with credit cards.* *– Pay for your education.*	*– You don't save for unexpected expenses.* *– You make impulsive purchases or spend more than you wanted to.* *– You build up debt without realizing it.* *– You have to pay interest.*

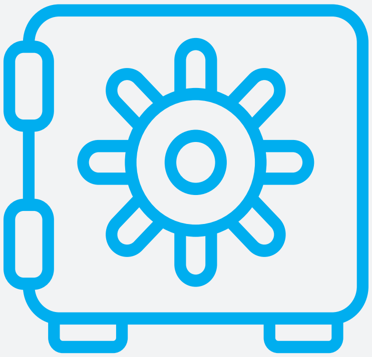
Types of credit

Several credit products are available, each with different features and for specific needs. Here are a few of them.

Before continuing, distribute the Step 2 – Types of Credit sheet. During your talk, ask students to think of an example that applies to the type of credit being explained.

Type of credit	Definition
Personal loan	*– 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	*Nick has landed a job in another city. He has to leave home, find an apartment and buy furniture. He takes out a $10,000 personal loan to buy furniture that he plans to pay back over the next 2 years.*
Credit card (used for purchases)	*– 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	*Ralph plans to travel to New York to celebrate the end of the school year. He reserves his trip on-line using his credit card. He earns rewards and avoids paying interest charges by paying the balance on his card on time.*
Credit card (used for a cash advance)	*– 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	*While travelling, Ralph needs extra money for an emergency. He takes a cash advance on his credit card, knowing he will have to pay interest as of the withdrawal date as well as currency conversion charges. He's planning to pay it all back with his next pay check.*
Québec student loans	*– 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	*Sophie has a student loan so she can attend university.*

Type of credit	*Definition*
Line of credit	*– An open loan that is 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 each month.* *– You need to be disciplined to pay back promptly what you borrow to avoid paying a lot of interest.*
Example	*Sarah bought a $400 tablet with her student credit card. She has to pay the minimum of $20 on her credit card. She would rather pay the entire balance of $400 to avoid paying 19% interest per year but she only has $275 in her account. She plans to use her line of credit, which charges 8% interest, to pay the other portion of the balance on her card.*
Student line of credit	*– 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	*Mel is studying dentistry full-time. She is using a student line of credit to help pay for her school supplies.*

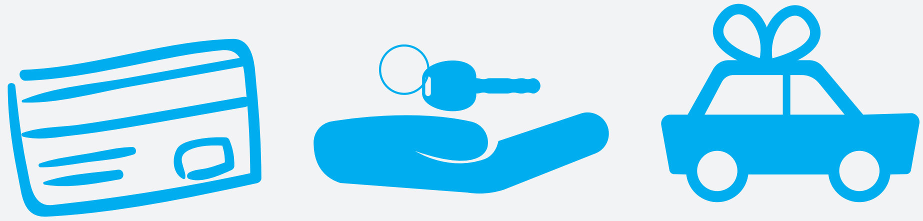


The need for credit varies according to each of these situations. It's important to shop around to compare interest rates.

Insurance products may be available with the credit chosen. You should carefully assess your needs since these products can be very expensive. It's also possible to buy insurance from a representative certified by the Autorité des marchés financiers.

STEP 2

STUDENT SHEET
TYPES OF CREDIT



Give one example of each type of credit.

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Example	

STEP 3
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	

STEP 4
WORKSHOP RESULTS

Nick's tablet

Type of credit	*Factors to be considered*
Credit card	*– 21 days to pay without interest: Does he think he'll be able to repay the full balance on his card before the due date?* *– What interest rate will apply if he doesn't?* *– What is Nick's budget for paying it back?* *– How soon does Nick hope to pay it off?* *– What is Nick's credit limit?* *– Does he have other credit card debt?* *– Is there a loyalty program?*
Line of credit	*– What interest rate will apply?* *– Lower interest rate than a credit card.* *– Could Nick use his line of credit to pay the balance of his credit card if necessary?* *– What is Nick's budget for paying it back?* *– How soon does Nick hope to pay it off?* *– Has Nick already borrowed on his line of credit?*
Money from student loan	*– No repayment before studies are completed.* *– No interest charges before studies are completed.* *– Less money available for tuition fees and living expenses (housing, food) while studying at CEGEP.*
Explain your choice	*Students should be able to explain their choice.*

SUPPLEMENT

– Lead a class discussion on the consequences of being in debt.

ADDITIONAL RESOURCES

Other educational tools are available at ***tesaffaires.com****, in the Teachers' section.*

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