Welcome

Financial Skills II: Banking & Credit

Banking & Credit is

- How banks work.
- Chequing & Savings accounts
- Internet Banking, Debit Cards & Bank Machines
- How banks approve credit
- Using credit wisely
- Managing your debt
- Establishing & Maintaining good credit

Banking Services

(page 5)

Two Major Types of Bank Accounts

- Chequing Accounts
- Savings Accounts

Service Fees

Overdraft Protection

Service Fees & Overdraft Protection

(page 6)

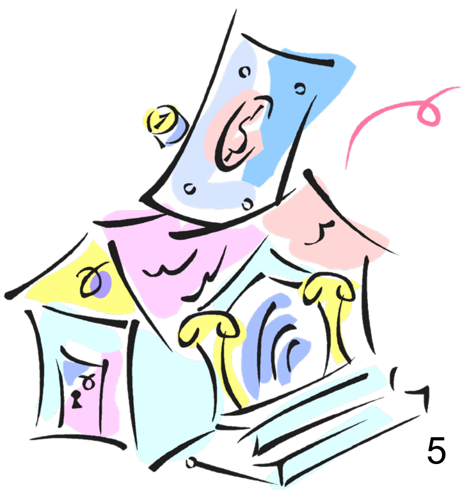
- Service Fees
  - Banks charge a Service Fees according to what is costs them to provide a Service.

- Overdraft Protection
  - It is similar to a temporary loan to protect you of you write a cheque, but have insufficient funds in your account to cover it.

Daniel & Frieda Need Your Help

(page 6)

1. What type of account do you think they need?
2. Should they open more than one bank account?
3. If more than one – how many and what types.
4. How much will this cost them.



Opening a Bank Account

A banker will typically ask:

- How old are you?
- Are you a fulltime student?
- Are you interested in Internet or Telephone Banking?
- How many transactions do you expect to have each month?
- Are you interested in a Chequing or Savings Account?
- Do you plan to leave your money in Savings for a short or long term?

Loans & Mortgages

(page 7)

- Loans
  - Secured with **things**.
  - Usually **higher interest** rates.
  - **Shorter term** to pay off.
- Mortgages
  - Well- secured by **house** and/or **land**.
  - Usually **lower interest** rates.
  - **Longer term** to pay off.

Two Types of Interest Rates

Variable Rates

- Usually lower rate
- Go up and down with the Prime Rate
- May change during the time required to pay off the loan.

Fixed Rates

- Usually a little higher rate
- Not tied to the Prime Rate
- Stay the same for a fixed term

Match These Lending Terms

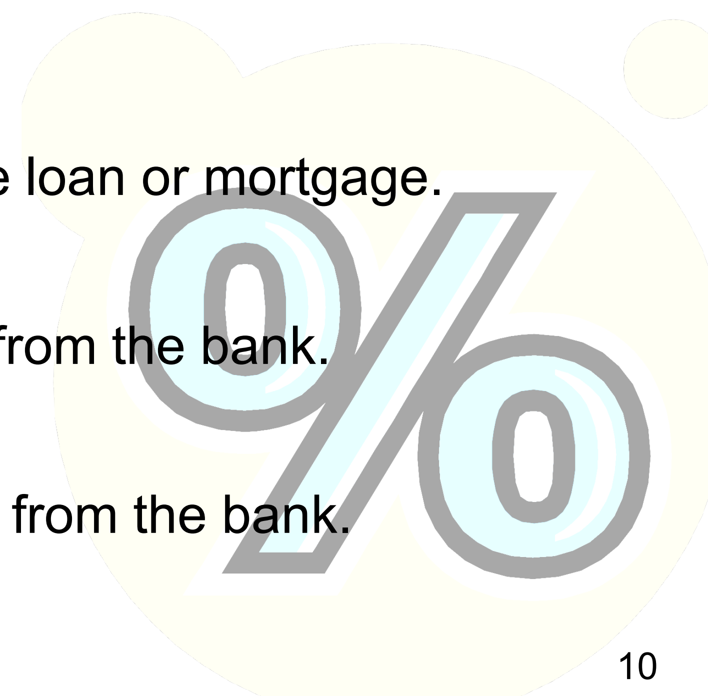
(page 7)

Prime Rate	The length of time your interest & payment amount will stay the same.
Term	The cost of borrowing money.
Amortization	The original amount borrowed.
Interest	The length of time it will take to pay off your loan or mortgage.
Principal	Interest rate charged to the bank's best (commercial/business) customers.

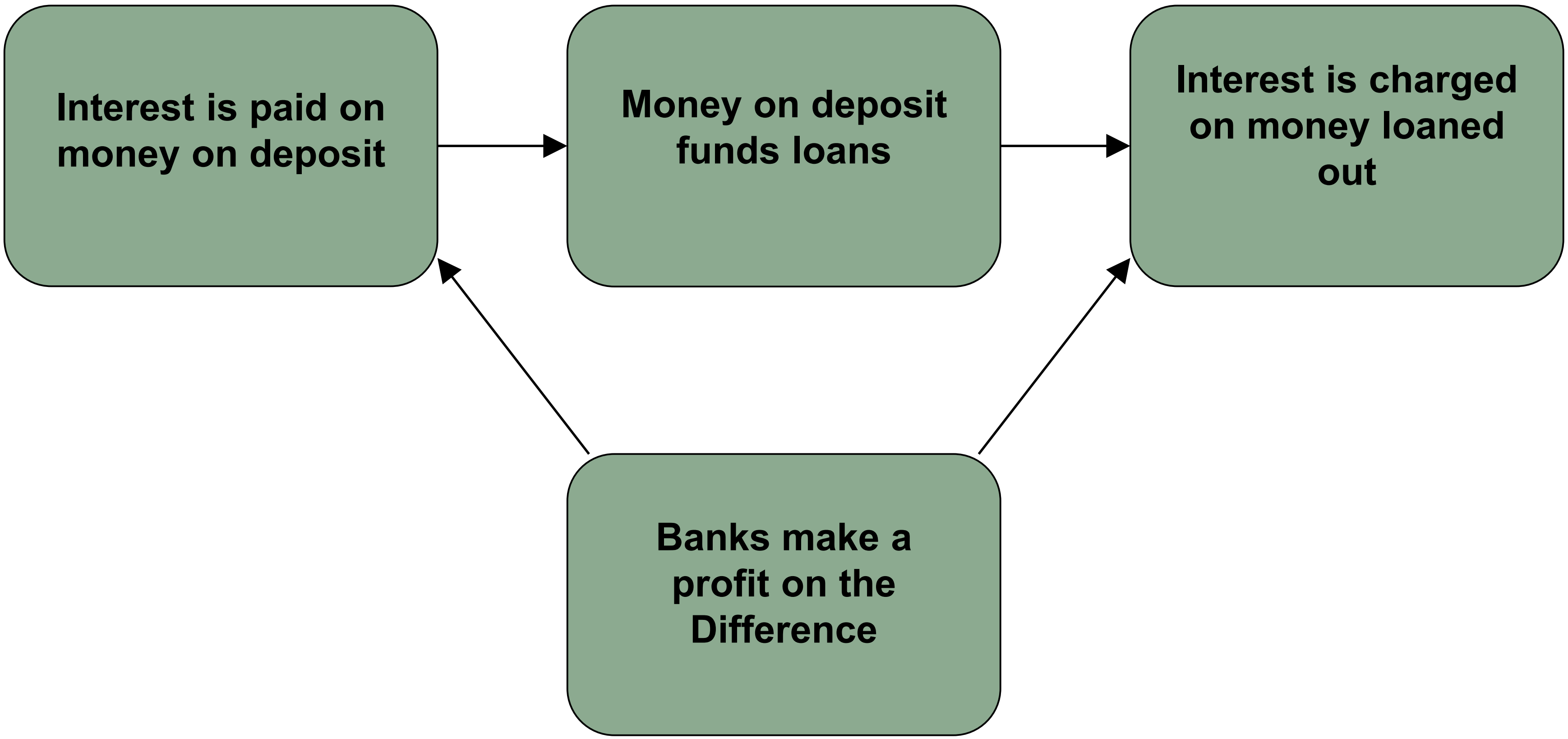
A Glossary of Lending Terms

(page 7)

- Prime Rate
  - Interest Rate charged to bank's best customers.
- Term
  - The length of time interest rate & payment amount stay the same.
- Amortization
  - The time needed to pay off the loan or mortgage.
- Interest
  - The cost of borrowing money from the bank.
- Principal
  - The original amount borrowed from the bank.



(page 8)


Interest is paid on money on deposit
Money on deposit funds loans
Interest is charged on money loaned out
Banks make a profit on the Difference

Northern Store "Banking"

(page 9)

PROS	CONS

Chequing & Savings Accounts

(page 10)

- You have a right to open a bank account.
- A bank can refuse you the right to open an account.
- Financial Consumer Agency of Canada
  - English 1 - 866 - 461 - 3222
  - French 1 - 866 – 461 – 2232
  - Visit the website www.fcac.gc.ca

Write a Cheque

(page 11)

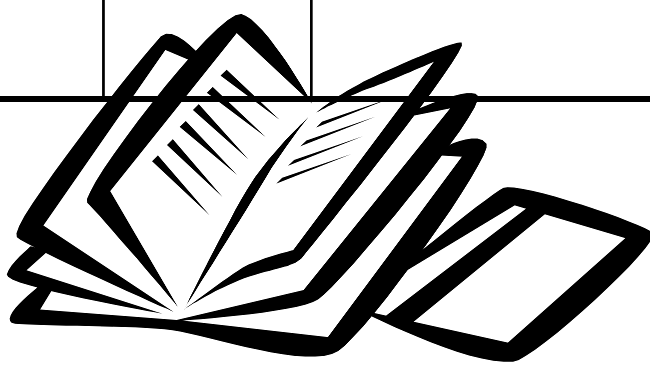
- **To your landlord, Far Northern Properties Ltd for 650.00**
  - **Post-date for the first day of next month.**
- **To yourself, for $200.00.**
  - **Use today's date.**
- **To the Local Store for your groceries for $127.93.**
  - **Use today's date.**
- **To YK Motors for the down payment on your car.**
  - **The amount of $1,100.00.**
  - **Use today's date.**

Using the Cheque Register

(page 14)

The cheque register will look similar to this.

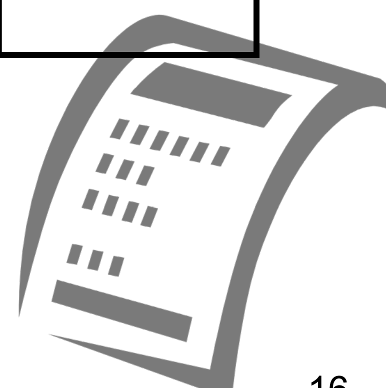
Cheque Number	Date	Description	Withdrawal	Deposit	Balance



Using a Cheque Register

(page 14)

Cheque #	Date	Description	Withdrawal	Deposit	Balance
		Balance Forward			$802.15
101	May 6	Local Store	$121.50		$680.57
	May 8	Pay		$860.00	$1,540.57
	May 15	Mortgage Payment	$425.30		$1,115.27



Recording Entries

(page 14)

Cheque Number	Date	Description	Withdrawal	Deposit	Balance
	May 8	Open Account		$100.00	

Record in the Cheque Register

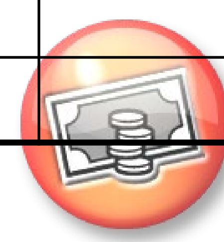
(page 14)

1. May 8 Deposit to Open Account $100.00
2. May 15 Deposit Paycheque $1000.00
3. May 15 Automatic Withdrawal $325.00
4. May 15 Automatic Withdrawal $ 45.00
5. May 17 Cheque #101- Co-op $124.17
6. May 19 Cheque #102- Water Bill $100.00
7. May 20 Cash Withdrawal $ 50.00
8. May 22 Debit Purchase – Local Store $148.95

Answer Sheet for Page 14

(page 14)

Cheque #	Date	Description	Withdrawal	Deposit	Balance
		Balance to open account		$100.00	$100.00
	May 15	Paycheque		$1000.00	$1100.00
	May 15	Mortgage Payment	$325.00		$775.00
	May 15	House Insurance	$45.00		$730.00
101	May 17	Co-op Store	$124.17		$605.83
102	May 19	Water Bill	$100.00		$505.83
	May 20	Cash Withdrawal	$50.00		$455.83
	May 22	Local Store	$148.95		$306.88

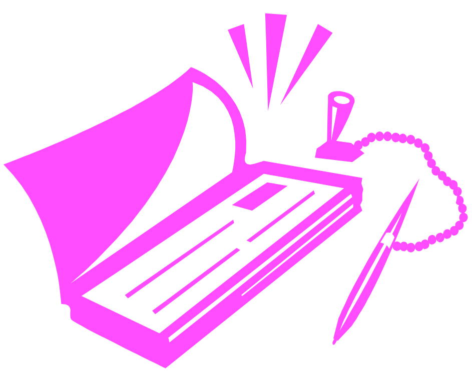


Reconciliation

Part One

(page 15)

- Account Reconciliation Worksheet
- ENTER the Last Balance .
- List ALL deposits/credits
  - that **appear** in the cheque register
  - that **do not** appear on Account Statement



Last Balance $______________

Deposits/Credits

____

____

____

____

____

____

Total of missing items:+__________

Sub-total +$___________

Reconciliation

Part Two

(page 15)

- Account Reconciliation Worksheet
- List ALL Withdrawal /Debits
  - that **appear** in the cheque register
  - that **do not** appear on Account Statement

Withdrawal/Debits

____

____

____

____

____

____

Total of missing items:

$______________

____

Total: This balance should agree with your own records.

____

Debit Cards & Credit Cards

(page 16)

Debit Cards

- Issued when opening a bank account.
- Pays bills as soon as you use it.
- Service Fee.
- You must be present to use this form of payment.

Credit Cards

- Apply for, dependent your credit rating.
- Charged for bills at the end of the month.
- High rate of interest.
- Need for Co-op orders, Internet and Telephone Shopping.

Debit Cards to access

(page 16)

ATMs

= **A**utomated **T**eller **M**achine

- ATMs are at your Branch
- Day or Night Banking
- Service Fee

CDUs

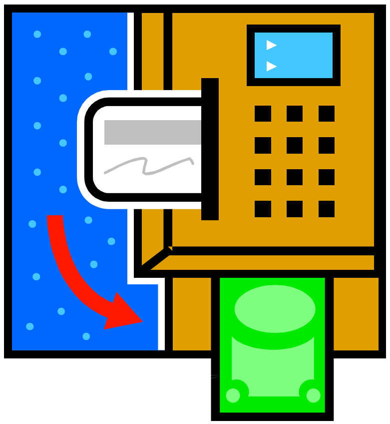
= **C**ash **D**ispensing **U**nit

- CDUs at a Business
- During Business Hours
- Service Fee + Added Fee

ATM Banking Services

(page 16)

- ☺ Cash withdrawals.
- ☺ Deposits (at your branch's ATM)
- ☺ Transfers between accounts (at your branch's ATM)
- ☺ Bill payments (at your branch's ATM)
- ☺ Credit & Cash advances
- ☺ Balance Inquiries (at your branch's ATM)



Daniel & Frieda Exercise

(page 16)

Minimum Payment Made	Length of Time to Repay	Actual Cost
3% of balance or minimum of $10.00 per month.		
10% of balance or minimum of $10.00 per month.		

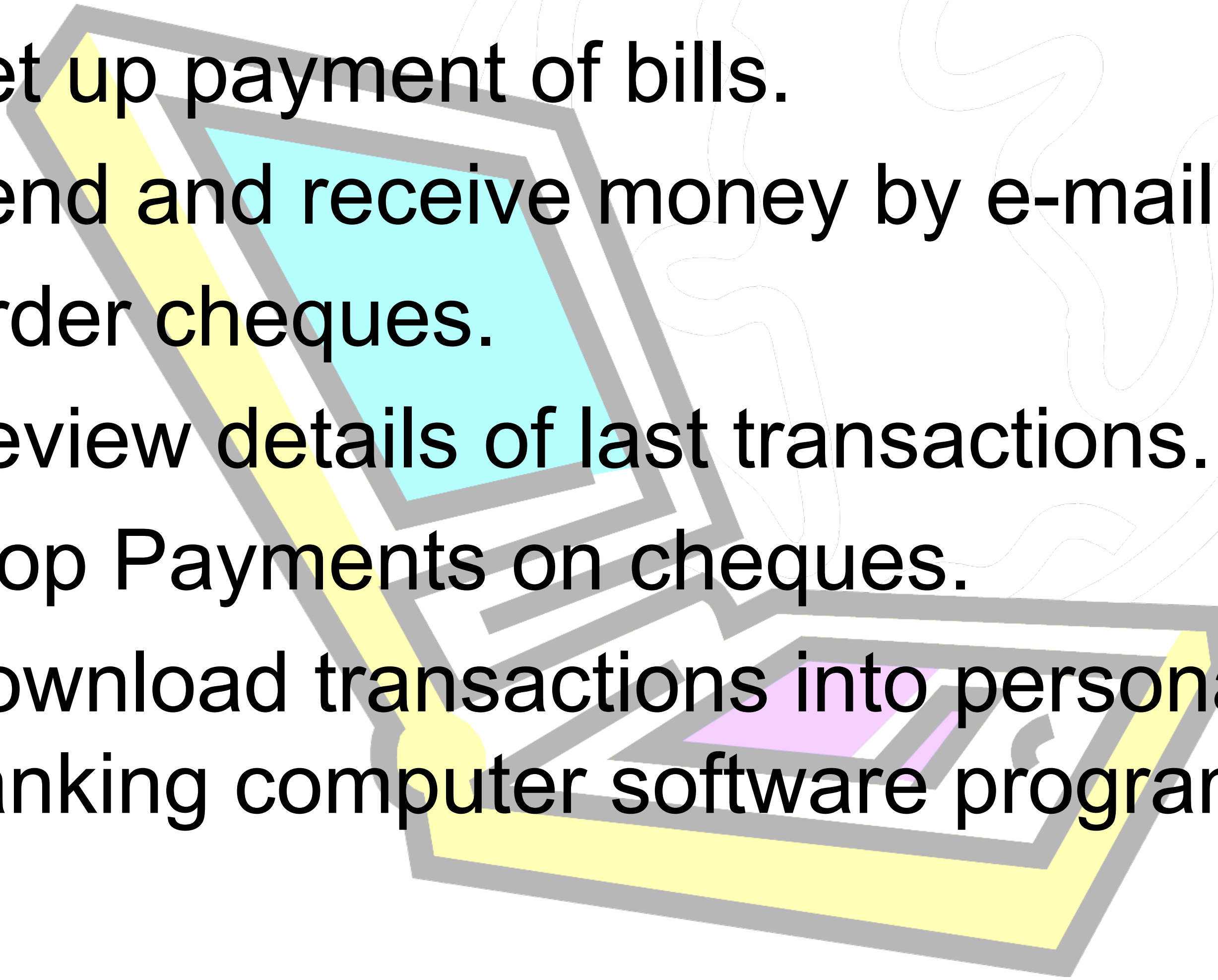
Telephone & Internet Banking

(page 18)

1. Account balances.
2. Loan, mortgage & credit card balances.
3. Details of your account's transactions.
4. Transfer money between accounts.
5. Payments of utilities.
6. Open other accounts & apply for credit.

Internet Banking Only

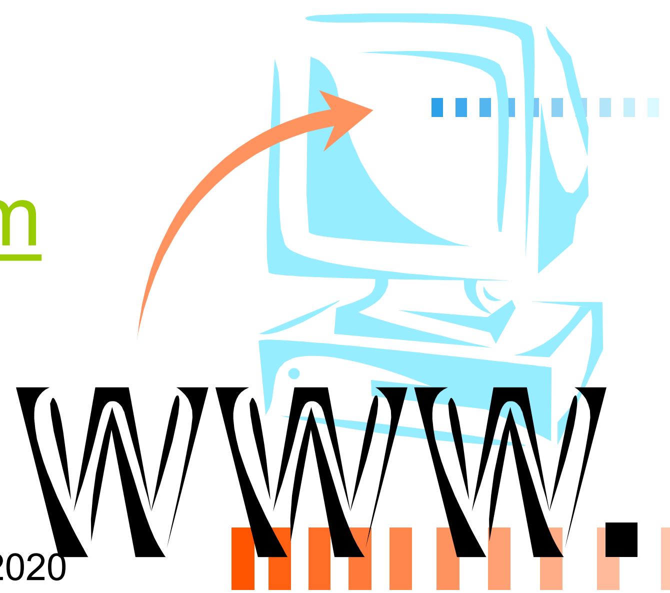
(page 18)



1. Set up payment of bills.
2. Send and receive money by e-mail.
3. Order cheques.
4. Review details of last transactions.
5. Stop Payments on cheques.
6. Download transactions into personal banking computer software programs.

To Access Bank Internet Demos

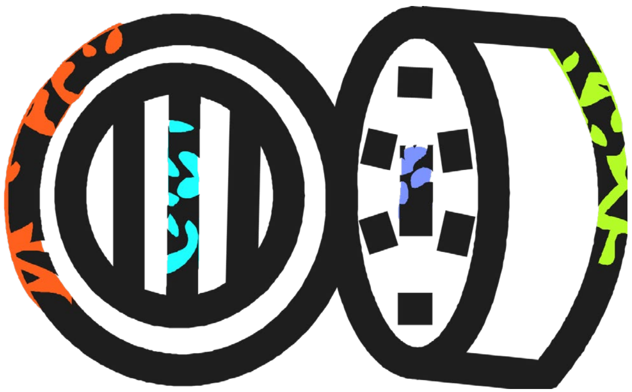
- https://www.cibc.com/en/personal-banking.html
- www.scotiabank.com
- www.bmo.com
- www.rbc.com
- www.tdcanadatrust.com
- www.fnbc.ca/Personal/



Applying for Credit

(page 19)

- Reason for the loan
- Total amount needed
- Monthly payment – for how long?
- Proof of employment
- Collateral?
- Past credit problems?
- Co-signer?
- Net Worth



Pay Day Loans

- Can be up to 50% of the pay cheque required to be paid back usually within two weeks or by next pay date.
- User fees can range from administration to insurance.
- Service charge based on every $100.00
- https://www.canada.ca/en/financial-consumer-agency.html

FCAC - Publications - The Cost of Payday Loans - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address http://www.fcac.gc.ca/eng/publications/paydayloans/paydayloans-6-eng.asp

- Publications
- Corporate Documents
- Surveys and Studies
- Newsletters

Proactive Disclosure

compare with taking a cash advance on a credit card, using overdraft protection on your bank account or borrowing on a line of credit?

Let's compare the cost of using different types of loans. We'll assume that you borrow $300, for 14 days. Note the considerable difference in the cost of each type of loan.

Comparing the cost of a $300 loan, taken for 14 days[1]

	Payday loan	Cash advance on a credit card	Overdraft protection on a bank account	Borrowing from a line of credit
Interest	—	$2.13	$2.42	$1.15
	+	+	+	+
Applicable fees	$50.00	$2.00	—[2]	—
	=	=	=	=
Total cost of loan	**$50.00**	**$4.13**	**$2.42**	**$1.15**
Cost of the loan expressed as a percentage of the amount borrowed[3]	435% per year	36% per year	21% per year	10% per year

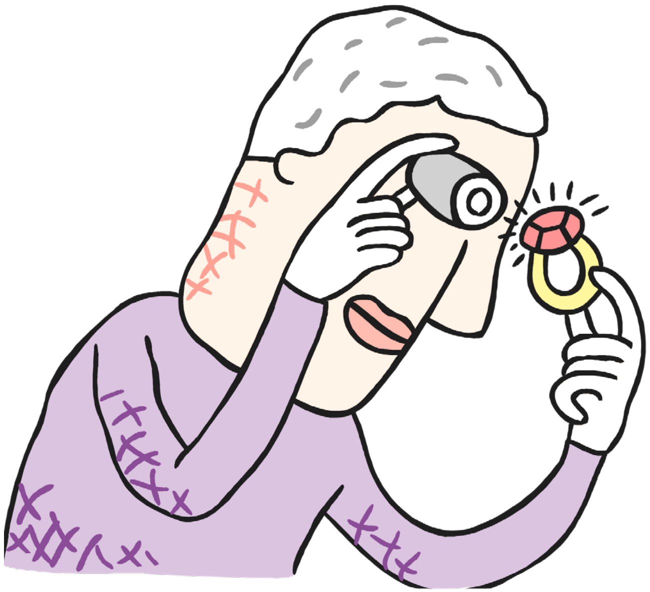
1. The costs and fees shown in these examples are for illustration purposes only.

2. The monthly service fee you pay for your banking service package often covers any processing fees for overdraft protection. To be sure, check your account agreement or talk to your financial institution.

3. This is an estimate of the annual cost of the loan. This is calculated by adding together all of the fees, charges and interest charged after 14 days, and projecting this cost over a one-year period. Although the cost is expressed as a percentage of the amount borrowed, it does not represent the annual interest rate.

The 3 Cs

(page 19)



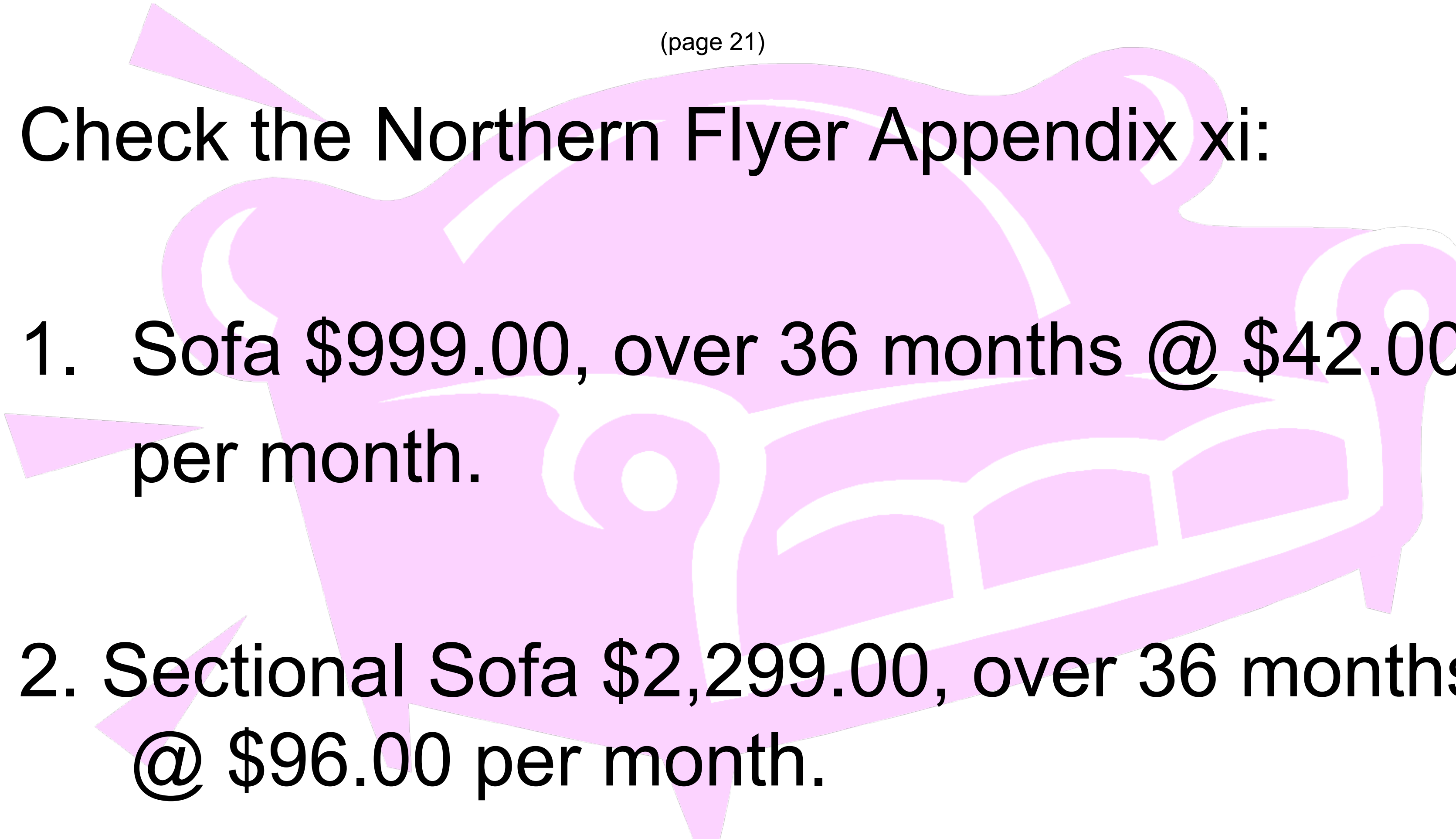
1. Character

2. Capacity

3. Collateral

Calculate the Cost

(page 21)



Check the Northern Flyer Appendix xi:

1. Sofa $999.00, over 36 months @ $42.00 per month.

2. Sectional Sofa $2,299.00, over 36 months @ $96.00 per month.

Debt Service Ratio

(page 22)

GDS = **G**ross **D**ebt **S**ervice Ratio

$$= \frac{\text{Monthly Housing Expenses x 100}}{\text{Gross Monthly Income}}$$

TDS = **T**otal **D**ebt **S**ervice Ratio

$$= \frac{\text{Monthly Housing + Other Debts x 100}}{\text{Gross Monthly Income}}$$

Negotiate a Better Deal

(page 24)

You can be in the Driver's Seat if:

1. Long time customer

2. Good customer

3. Good credit rating

Your Credit Agency Knows

(page 25)

- Where you live?
- How long you lived there?
- Where you work?
- How long you worked there?
- Previous address and employment?
- Results of collection action taken?
- Past credit problems?

Contact the Credit Bureau

Equifax Canada
www.equifax.com

Transunion at Equifax Canada Ltd.
Consumer Relations Department
Box 190
Jean Talon Station
Montreal, Quebec H1S 2Z2

Trans Union Canada
Consumer Relations Centre
P.O. Box 338
LCD 1
Hamilton, ON L8L 7W2

What if I Have Bad Credit ?

(page 26)

1. Accept Responsibility
2. Create a Budget and Stick to it
3. Contact the Credit Granting Agency
4. Pay off the Most Expensive debt first
5. Consolidate debts
6. Arrange for Orderly Payment

A Good Credit History

(page 27)

1. Limit the amount of credit you have

2. Set financial goals

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Congratulations