

Don't let living on credit make you sick

The drastic cost of plastic

BY MARY TERESA BITTI

A passion for plastic has led to a new medical term: debt stress. That's right. Too much borrowing will make you sick.

"Credit card debt is now being used as a safety net and to make ends meet," says Roger Sauvé, president of People Patterns Consulting in his latest report for the Vanier Institute of the Family.

But the impact goes beyond lost sleep and worry. Look at the credit crunch that's resulting in foreclosures south of the border. The situation is so precarious the new head of the U.S. Federal Reserve had to drop interest rates to help ease the strain.

Here at home, insolvency rates are high: 99,000 Canadians filed for personal bankruptcy last year.

People are spending more than they are bringing in. In fact, debt loads sit at 127% of income. Not surprisingly, savings rates are almost nil and we continue to charge, well, just about everything. Canadians put almost \$215-billion on Visa or MasterCard in 2006. That's up from about \$170-billion in 2004 and \$39-billion in 1990.

Consider this your scared straight speech. You can start now to make the decision to manage your money — right. And that starts by learning how to handle credit and getting rid of debt.

"Your ability to get a car loan, a business loan, a mortgage will be restricted by the amount of debt you're carrying," says Lenore Davis, registered financial planner and senior partner, Dixon Davis & Company in Victoria. "You have to get rid of debt — particularly high-interest credit card debt — if you want to get ahead. So don't borrow what you can't afford to pay off."

That means not getting seduced by easy credit. And it is easy. The banks mail out hundreds of millions of credit card applications each year. As a result, the typical Canadian aged 18 and up has three cred-

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■ Did you know if you owe \$2,000 on your credit card and make only the minimum payments of, say, 2.5%, assuming an 18% interest rate, it will take almost 19 years to pay it off, at a cost of \$2,615.4

BOOST YOUR FINANCE IQ

How much do Canadians know about money management? Not enough, according to a recent national survey commissioned by Credit Canada. "People are poorly educated when it comes to their personal finances," says Laurie Campbell, executive director of the not-for-profit credit counselling agency. "The problems facing Americans are heading our way if we don't smarten up." The numbers back her up:

- 90% of Canadians feel they are carrying more debt today than they were five years ago.
- 53% of people do not have a budget.
- 80% of people don't know how to check their credit report and don't know what a credit score is.
- 26% of Canadians do not consider the consequences of a rising interest rate when borrowing money.

it cards in their wallet making the risk for misuse high. "It's easy to impulse purchase with credit cards," says Laurie Campbell, executive director of Credit Canada in Toronto.

"The minimum payment is always fairly low and people fool themselves into thinking that as long as they are making that minimum payment they are all right. They aren't. Banks make more interest when people pay over time, that's why minimum payments sit at around 3%."

It's time to get serious and take charge. Sit down, put pen to paper and create a net worth statement, outlining

what you own and what you owe. Get specific. Know exactly how much money is coming in each month, what's going out and where. The key is to determine exactly how much money you have available to spend each month on the necessities and debt obligations. Now create a spending plan that will allow you to manage your expenses and pay down debt.

"It comes down to money 101, there is no easy magic solution," says Ms. Campbell. "Being aware of where money is going and where you are saving money will allow you to direct more money to paying down debt."

You should also write down your goals: when you want to be debt-free; when you want to begin saving for a home, a car, children; and track how you are doing each month.

"This is really important to help keep the plan in perspective and to help you realize you are actually making progress," says Ms. Campbell. "This is what will help you build wealth."

Now the tough part. Stop spending. "If you are going to try and pay down debt it means not spending money on other things," says Ms. Davis. "Any extra money should go to pay down what you already owe."

The net worth statement will have helped you identify which debts are carrying highest interest rates — attack these first. Getting rid of high-interest debt will yield an 18% return on your investment just like that. It may be wise to consolidate your debt and take out a line of credit or a low interest rate loan to pay it off. That way, you've swapped high-interest debt for lower-interest debt, saving you some money in the process. But this can be risky.

Finally, limit the number of credit cards you have. Two max, says Ms. Campbell. "That's all you will ever need." Pay the balance in full each month and don't use them impulsively.