CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

JUST THE FACTS: HELPING YOU TALK ABOUT MONEY

Credit

There are two types of credit: Secured and non-secured.

- **SECURED CREDIT:**
  - Physical property (such as a home or a car) or a valued asset (such as rights to music) is used as collateral for the borrowed money.
  - If the money can't be paid back, the lender can take the property or asset instead, and sell it to recoup the outstanding cash.

- **NON-SECURED CREDIT:**
  - There is no specific property attached to the loan.
  - Money is borrowed based on general credit-worthiness, with no collateral.
  - Most credit cards and lines of credit are non-secured.
  - If payment is not made, the financial institution may pursue legal action to collect.

Your credit score, or credit rating, is the likelihood that you will make payments.

- Lending institutions base their decisions on whether, and how much, you can borrow based on the expectations of repayment.
- Different institutions use varying methods to calculate credit scores, including computer algorithms tracking an individual's spending and savings habits.

When considering credit options, look at the full cost – not just the monthly payments.

- When a salesperson offers a credit plan, calculate the total cost of those payments – including interest – when making your decision.
- Some sales pitches offer relatively low monthly payments, which may be enticing.
- It may be more cost effective in the long run to finance through a lending institution such as a bank; you will still be making monthly payments but at lower interest rates so the total cost will be less over time.

LEARN MORE AT cpacanada.ca/justthefacts

Looking to better understand money basics and how they apply to you?
*You may also be interested in taking our **Financial Wellness Guide questionnaire**.*

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