Financial advice for the 20-something generation

School embraces the teaching of subjects such as: Math, English and Physics, but why not a course on Finance? This course would help educate the younger generation on how to establish a budget, manage money and invest for the future. Perhaps in the future, we will see this subject integrated into the educational system. Even though this column is far from a course on finance, here are a few basic lessons for the younger generation:

Establishing Credit
Credit is important for borrowing money, renting apartments, renting cars and even getting a job. Starting to establish one's credit at a young age is a very good idea. The best way of establishing credit is to do so at a slow pace, rather than building up too much debt at once. Instead of signing up for several credit cards, limit yourself to one and only make lower cost purchases. This will ensure that you have the ability to pay the full balance each month. Credit cards are not for everyone and for many people these cards can be dangerous, if not used properly. They don't necessarily promote the best way of managing money, because credit cards make it easy to make purchases now and pay later. It can be easy to lose track of how much one has spent. Perhaps the easiest way to keep your spending on track is to keep a tally of your credit card purchases in a notebook. Also, make sure you take advantage of the services your financial institution offers. Through online banking, for example, you can view your account activity at any time and even make electronic payments. Make sure you pay your bills on time, and only apply for the credit you need. For example, some people apply for several cards reeled in by the free gift being offered. Once activated, even if the card is never used it does factor into your Total Debt Service (TDS) ratio. This ratio is used to help determine how much additional borrowing is acceptable for your situation.

To establish and maintain good credit, pay the full balance each month or at the very least the minimum amount due on your monthly balance, and pay it on time. Don't forget to allow five to seven days for payments made by mail and one to two days for those made online.

A very positive way to start establishing credit is to get a cash-secured loan and then deposit the funds from this loan into a GIC or savings account. You will be required to repay this small loan, in regular payments, using your own funds. This "forced saving" will help you establish good credit through your regular loan payments and you'll be saving money by turning it into an investment.

If you don't qualify for credit, ask a parent/guardian with an established credit history to co-sign your application. But remember, by co-signing he or she will be responsible to pay the debt if you do not.

How does my credit file work?
When you apply for credit or want to open an account, the credit grantors want to be sure that if they lend you money they will be paid back. The more your credit file demonstrates that you pay your debts on time, the more desirable you become as a potential customer.

If you have fallen behind in the past, a credit grantor wants to see how you have been managing your debt since then. Your credit file also shows how much you have already borrowed. Credit grantors want to evaluate your financial capacity to make monthly payments. No responsible lender will want to over-lend or encourage customers to take on more debt than they can pay back.

A credit file is created when you first borrow money or apply for credit. On a regular basis, companies that lend money or issue credit send specific information relating to your financial transactions to credit reporting agencies.

There are two major credit reporting agencies in Canada: Equifax Canada Inc. and Trans Union of Canada Inc.

Individuals or companies may only obtain a copy of your credit file with your consent or after having told you that they will be reviewing your file and you do not object.

Contained in your credit file is your credit score. A credit score is a numeric value assigned by credit grantors to indicate how likely someone is to pay back a loan or credit card according to the agreed repayment terms. It is an indicator of the level of risk that a borrower might represent. It is used as a predictor of future performance.

New Graduates

Patience is the often the key for new graduates. Once you have found employment, you will likely have items that you would like to purchase (e.g. a new car, motorcycle) or things you would like to do (e.g. taking an adventurous trip). However, if you are like the majority of students, you probably carry debt from your studies. Therefore, it is essential that you prioritize what is important and concentrate on one item at a time (e.g. get a new car now, take the trip in 5 years, etc.). You might want to pay off your debts before making any big ticket purchase. It is in these first few years of having a full time job and being in the “real world” that you must be responsible with your earnings and establish good credit.

Once you have completed your full-time studies (whether you have graduated, transferred to part-time studies, withdrawn, or are taking time off), you will enter the loan repayment stage.

Interest accrues on your Canada Student Loans as soon as you leave full-time studies, but you are not required to make any payments until 6 months following your completion date. Within 6 months of completing your full-time studies, you must contact your financial institution with which you have your loan and/or the National Student Loans Service Centre (NSLSC) to consolidate your loans and set up a repayment schedule.

Canada Student Loans received *before August 1, 2000* are to be repaid to the financial institution holding your loans. Canada Student Loans received *on or after August 1, 2000* are to be repaid to the Government of Canada through the NSLSC.

How to Repay Your Student Loans Faster

Making lump sum payments toward your student loan is one of the best options to repay your loan faster. Any lump sum payments you make while you are attending school and/or during the six-month Grace Period are applied directly to the principal of your loan. This means the Grace Period interest accrued on your loan will be reduced and you will receive credit toward payments during the Grace Period on your Income Tax Receipt. When you begin repaying your loan, you can continue to make lump sum payments at any time. These payments will first be applied to any interest outstanding from the date of your last payment, and then toward the principal of your loan.

You can also repay your loan faster by increasing your monthly student loan payment. The amount that you increase your payment above the minimum monthly payment will be applied to the principal of your loan each month.

Not only do these options help you pay your loan off faster, they will also save you money. Paying the principal faster will reduce the amount of interest that accrues on your loan over your repayment term.