

Module 6 - Credit Basics

HANDOUT 6-1

Types of credit

Type of credit	Lender	Uses	Conditions
Revolving credit			
Credit Cards (secured and unsecured – NOT prepaid)	Financial institution	To make purchases, pay bills, make reservations, rent products, buy online	Has a credit limit amount with a minimum payment required. Interest rates vary. There may be extra fees and benefits.
Retail store card	Retail store	To make purchases at that store only	Has a credit limit amount with a minimum payment required. Higher interest charges (eg. 28%) than a regular credit card (eg. 19%).
Overdraft protection	Financial institution	Connected to your bank account. Protects against small cash shortages and NSF fees	Fees for use plus interest costs.
Line of credit (secured or unsecured)	Financial institution	For making purchases, such as cars, home renovation	Has a credit limit amount with a minimum payment required. Interest rates are often low.
Installment credit or loans			
Payday loans	Private businesses	Short-term cash needs	Amount based on income. Term no longer than 1 month. High fees.
Buy Now Pay Later loans (Deferred payment loan)	Retail stores	Buy higher cost household items, such as furniture	Pay in full by due date in one lump sum or instalments. Set up fees may apply. If the loan is not paid in full by the due date, high interest fees apply and go back to the date of purchase.
Rent-to-own	Retail stores	Buy higher cost household items and pay in instalments	Terms and conditions vary widely. Fees can double the amount paid beyond the original cost of the item.
Consumer loan	Financial institution	Make large purchases (car, renovations, computer)	Receive a lump sum with a set interest rate and repayment schedule. Interest rates vary.
Mortgage	Financial institution	Buy house or other property	Requires a down payment of 5-20%. Receive a lump sum with a set repayment schedule over many years (20-35). Terms of the agreement set for 1-5 years. Interest rates can be fixed or variable.
Student loan	Government	Pay for education (tuition, books, living expenses)	Low interest rates. Repayment begins after student leaves school. Amount depends on financial need.
Business loan	Financial institution	Granted for the use of a business	Could be for start-up capital or business growth. Lump sum with set interest rate. Interest rates vary.