SESSION 2 OF 4 · CREDIT & DEBT

Credit is a tool. Handled badly, it's a trap.

Your late teens and twenties are when your **financial reputation** gets built — for better or worse. Used well, credit helps you rent an apartment, buy a car, and one day a home. Used carelessly, it quietly costs you thousands. This session is the difference between the two.

What credit actually is

Credit is borrowed money you promise to pay back — usually with **interest**, the fee for borrowing. A credit card, a line of credit, a student loan, a car loan: all credit. The golden rule with a credit card is simple and non-negotiable: **pay the full balance every month.** Do that, and credit is a free, useful tool. Don't, and you're renting money at brutal rates.

Your credit score — the number that follows you

Every time you borrow and repay, it's recorded. That history becomes a **credit score** (roughly 300–900 in Canada) that landlords and lenders check. A strong score gets you approved and gets you lower rates. The two habits that build it: **pay on time, every time**, and **don't use most of your available credit** (keep balances low relative to your limit).

Good debt vs. bad debt

Good debt buys something that grows your future and carries a lower rate — a student loan for a credential, a mortgage on a home. An investment in yourself.

Bad debt funds things that lose value, at high rates — a credit-card balance on clothes or dinners, a payday loan. It shrinks your future.

Not all debt is bad — but the rate and the reason matter enormously. Borrowing 4% to earn a degree is very different from carrying 20% on takeout.

Student loans, without the panic

Government student loans (like **OSAP** in Ontario, plus federal loans) are among the cheaper, more forgiving ways to borrow: often interest-relief while you study and income-based repayment after. They're "good debt" *if* the credential pays off and you borrow only what you need. Two rules: **take the minimum that covers real costs**, and know your repayment terms *before* you sign.

The trap, in one number

Remember compound interest? On savings it works *for* you. On a credit-card balance it works *against* you — at around **20% a year**.

WATCH OUT

Carry a **$2,000** balance and make only minimum payments, and you can spend **years** paying it off and hand the bank **hundreds** in interest for a one-time purchase. The card feels free at the till; the bill is anything but. **Pay it in full, or don't put it on the card.**

CHECKPOINT

1. Sort these into good debt or bad debt, and say why: (a) a $6,000 student loan at 5%; (b) a $1,500 credit-card balance at 20% for a spring-break trip; (c) a car loan at 8% for a reliable used car to get to work.

2. Name the two habits that build a strong credit score.

Next up: accounts that grow your money

You can protect your money from debt — now learn to **grow** it. Next: the registered accounts (TFSA, FHSA, RRSP) and which ones make the most sense when you're young.