



## Managing your debt with a line of credit

A study published in 2001 by Statistics Canada, entitled *The Assets and Debts of Canadians*, found that 38 per cent of Canadians carry credit card debt, owing an average of \$3,000 to credit card companies. According to the study, about a fifth of Canadians owed an average of \$11,200 for their vehicles. Some 16 per cent of Canadians owed an average of \$13,500 on lines of credit.

In the study, the number of Canadians owing money on credit cards varied according to different age groups. The largest group was Canadians aged 25 to 34. In that category, fully half of Canadians were carrying credit card debts.

Clearly, we are a debt-happy society. And there's not necessarily anything wrong with carrying some debt – most Canadians do want to own homes, for instance,

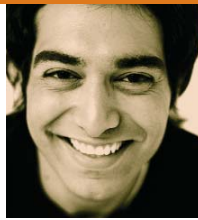
and most of them need to take out mortgages to do so – but it's important to choose the right instruments for carrying that debt.

### **WHY A LINE OF CREDIT IS BETTER THAN A CREDIT CARD**

If you have so much credit card debt that it's starting to weigh you down, consider using a line of credit to pay it all off. This arrangement has two advantages. You only have one bill and one payment to remember every month rather than three or four (or more); and a line of credit almost always offers you a much lower interest rate than what you get with credit cards.

“With a line of credit, your debt costs are lower and you can pay your debts off sooner,” points out Marc Lamontagne, an advisor with Ryan, Lamontagne and Associates in Ottawa. “Credit cards typically charge about 18 per cent interest per annum, whereas a line of credit is usually just a few points higher than prime.”





If you owe \$5,000 on credit cards, you could be paying as much as \$75 or more a month just in interest. That's \$900 a year down the drain. If you owe \$5,000 on a line of credit, your monthly interest is more in the neighbourhood of \$25. Using these figures, switching to a line of credit could save you \$600 in one year.

### GET SMART ABOUT IT

A useful strategy, says Lamontagne, is to consolidate your debts using a line of credit, then have your paycheques deposited directly onto your line of credit.

"The benefit is twofold," he says. "You save yourself a few days of interest by getting the money in there faster. And there's a psychological advantage, because when you see your debt getting smaller, you'll feel more resistant to letting it creep up again."

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