



Shopping Around for a Credit Card

WHAT IS A CREDIT CARD AND HOW DOES IT WORK?

A credit card is a convenient way to pay for purchases, or to pay a security deposit on services, such as reserving a hotel room or renting a car.

You can pay for purchases up to the limit that is on your card. You can use a credit card to withdraw cash from an automated banking machine (ABM). This is called a “cash advance”. Once a month you receive a bill or “statement” that lists all of the purchases and cash advances you have made that month with your card, plus any interest that you owe. You then have to make a payment, by the “due date”, of **at least the minimum** amount indicated on the bill.

Where can you get a credit card?

You can obtain a credit card from a bank or another financial institution, or at a store or a gas station.

How can you get a credit card?

You have to apply for a credit card. To determine your credit rating — which represents how good a risk you are — a lender will look at your current level of debts, your income and your past history of paying bills or paying back any money you borrowed. Based on that information, the lender will then decide whether or not to approve your application, and how much credit to give you on your credit card. This is called your “credit limit”.

How much interest you will have to pay?

FOR PURCHASES

If you pay your credit card bill in **full** each month, by the payment due date, you won't have to pay any interest. However, if you **don't** pay it in full, by the payment due date, you **will** have to pay interest.

FOR CASH ADVANCES

When you take a cash advance with a credit card, you have to pay interest from the day you withdraw the cash to the day the credit card company receives your payment.

What are the advantages of a credit card?

- Using a credit card is a convenient way to pay for goods and services — whether in person, on-line or by telephone.
- If you always pay your bill in full each month, your purchases are interest-free.
- A credit card can help you build a good “credit rating”, if you make all of your payments on time.
- It is safer to carry a credit card than to carry cash.

- If your credit card has been stolen, or used without your permission, you usually do not have to pay for any charges you didn't make.
- Many credit card companies offer rewards and benefits such as travel points, or insurance, or extended warranties on products purchased with a credit card.
- There are credit cards with features for students and for seniors.
- If you have a good credit rating, you may qualify for a lower-rate credit card.

What are the disadvantages of a credit card?

- Because credit cards provide easy access to money, some people get into serious financial trouble because they borrow too much and can't pay it back.
- Credit card interest rates are usually higher than those on a line of credit or a personal loan.
- If you don't pay your balance in full and on time each month, you may end up paying a lot of interest.
- With a cash advance, you have to pay interest from the date you withdraw money until the day you pay it back.
- If the credit card you have includes special features such as travel points, insurance or a low interest rate, you may have to pay an annual fee.
- If you have trouble making the minimum payment by the due date, this can damage your credit rating, and prevent you from getting another type of loan.

Tips to help you shop around for a credit card

Ask yourself:

- How much will I spend on the card each month?
- Will I be able to pay my balance in full each month?
- Would I benefit from reward programs? Will the benefits outweigh any associated fees?
- Am I prepared to pay an annual fee? What other fees apply?
- If I consistently carry a balance, what interest rate am I prepared to pay on my purchases and/or cash advances? Could I benefit from a low-rate credit card?
- Do I understand how credit card interest is charged? There are different methods used to calculate interest.
- If I am considering a low, "introductory" interest rate, do I understand how that interest rate will change once the introductory period is over? Do I understand how payments will be applied to the charges on the card?
- What are my rights and responsibilities with a credit card?

Where to go for more information

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can reach us by phone through our toll-free Consumer Contact Centre at 1-866-461-3222 (our TTY number is 613-947-7771 or, toll-free, 1-866-914-6097), or by visiting our Web site at www.fcac.gc.ca.

If you would like more information about credit cards, see our publication *Credit Cards and You* — available on our Web site or by telephone — or try our on-line interactive tool, which will help you compare credit cards and choose the card that best suits your needs.