



BORROWING: CREDIT CARDS INTRODUCTION

CREDIT CARDS - INTRODUCTION

A credit card is a card that gives you access to a revolving line of credit.

- ▶ It is issued by a bank, credit union or other financial institution
- ▶ It allows you to borrow money to pay for goods and services in stores, online and by telephone up to a certain limit.
- ▶ Your credit limit is the maximum amount that you can spend and as you pay down the balance on your card, you receive access to that credit again.
- ▶ At the end of each billing cycle (which is usually a month) you must pay back what you borrowed or you will be charged interest on the balance on your card.
- ▶ Credit card companies may also charge other fees with your credit card.
- ▶ Your credit report will contain information on how you manage your credit card.

CREDIT CARD ADVANTAGES

1. Allow you to buy now and pay later

- ▶ You don't need to wait to purchase items you need.
- ▶ Use this responsibly: If you need to make a purchase a few days before your payday, you can easily put it on your credit card and pay it off when you get paid, as long as it's before the due date.
- ▶ Then you will have borrowed without having to pay interest and you will not pay more than the purchase price for your item.

2. Convenient

- ▶ You don't need to worry about taking out cash and carrying it with you.
- ▶ You can easily use a credit card to make purchases online or almost anywhere you go in Canada and internationally.
- ▶ Be careful not to overspend on your credit card and go into debt. If overspending is an issue, it might be better to use your debit card for your everyday purchases.

3. Reliable form of Recordkeeping

- ▶ Your credit card statements are a reliable form of recordkeeping
- ▶ Each month you can see your credit card spending for the past month which can help in budgeting.
- ▶ Be sure to check your credit card statement each month to ensure that no fraudulent transactions have been made.

4. Versatile

- ▶ You can use a credit card in places and situations that you can't use cash or debit cards. eg. making online purchases, booking hotel rooms, making international purchases either online or when traveling.

5. Secure & Provide Purchase Protection

- ▶ Credit cards have a zero liability policy so if your credit card is lost or stolen, or someone uses your card to make unauthorized purchases, you will be reimbursed for those purchases.
- ▶ Be sure to report the loss or theft of your card or the unauthorized transactions as soon as you find out about it and within the time frame set out by your credit card's terms & conditions.
- ▶ You must also be sure you use reasonable care in safeguarding your card (such as not sharing your PIN or lending out your card) so you can be confident you will be reimbursed for any unauthorized purchases.

6. Cash Advances

- ▶ If you're in a pinch and need cash quickly, you can use your credit card to get a cash advance.
- ▶ Cash advances may have a higher interest rate.
- ▶ Cash advances are not usually included in your credit card's grace period which means you will begin paying interest on those advances immediately.
- ▶ Try to avoid cash advances when possible, and when you do use them, have a good plan for paying back those advances quickly.

7. Perks

- ▶ Most F.I.s offer a wide range of credit cards that usually include a rewards system for using your card, such as points or cash back.
- ▶ Look at all the options when choosing a credit card and choose the one that suits you, your spending habits and your lifestyle best.
- ▶ Some cards may provide benefits you aren't even aware of such as travel insurance. They may also provide purchase protection where the credit card company will reimburse you for purchases that become damaged or stolen up to a certain dollar amount.

8. Help Build Good Credit - When Used Responsibly

- ▶ If you use your credit card and pay it off on time, that will show on your credit report and will help you to build a good credit rating.
- ▶ This can make your life easier when you need to borrow money, as lenders will be more willing to lend you money and may even offer you a better interest rate.

CREDIT CARD DISADVANTAGES

1. Interest Charges

- ▶ If you carry a balance on your credit card, you will be charged interest, making your purchases more expensive.
- ▶ Often the interest rates on credit cards are much higher than the interest rates on bank loans. If you carry a balance, it can add up quickly.

2. Convenient

- ▶ Because credit cards are so convenient and easy to use, using a credit card to pay for purchases can give the illusion that you're not really spending money, which can lead to overspending.

3. Cost Money

- ▶ Some credit cards charge annual fees.
- ▶ You may also have to pay a fee for any cash advances you do.
- ▶ Credit Cards have high interest rates.
- ▶ Be sure you aren't paying more in interest and fees than the benefits you are receiving from your card.
- ▶ If you are paying more than you get back, you may need to look at switching to another credit card or not using a credit card at all.

4. Scammers Target Credit Cards

- ▶ Credit cards have many effective security features, but scammers do target them so you need to be diligent to check your credit card statements to be sure there are no fraudulent charges.
- ▶ You must check your statements regularly as credit card companies will provide you with a limited time frame in which to report a fraudulent or unauthorized transaction.
- ▶ Most credit card fraud can be avoided if you take care to follow basic credit card security practices such as protection your PIN, keeping your card in a safe place, and ensuring you only use your card in safe situations and on secure websites.

5. Term & Conditions

- ▶ You must take the time to understand the terms and conditions of your card.
- ▶ If you are offered a promotional interest rate when you sign up for your card, be sure you know how long that interest rate will last and what it will change to when the promotional period ends.
- ▶ Make sure you know when you will be charged fees and what they will be so you can manage your card and your finances well.

6. Affect Your Credit Report

- ▶ Poor credit card management will cause you to have a poor credit score.
- ▶ Be sure you use your credit card carefully and don't overspend.

CONCLUSION

Credit cards can be very useful and have many advantages. The important thing to keep in mind is that they also have a lot of serious potential disadvantages if you don't use them with the proper care and responsibility.

- ▶ If you have questions about how to use your credit card properly or how to manage any debt you've accrued on a credit card, reach out to someone at your financial institution and they'll be happy to answer any questions you may have or get you pointed in the right direction.