



BORROWING: CHOOSING A CREDIT CARD

CHOOSING A CREDIT CARD - INTRODUCTION

Most financial institutions have a wide variety of credit card options and it can be difficult to choose which one is best for you. Because of the variety in options, there are also a number of things you should look at and consider when you're choosing a credit card.

.....

THINGS TO CONSIDER WHEN CHOOSING A CREDIT CARD

1. ANNUAL FEES

- ▶ How much are you willing or able to pay for your credit card annual fee?
 - Credit card options can range from a no-annual fee or low-annual fee to ones with an annual fee that costs a few hundred dollars per year.
 - It's important to choose a card with an annual fee you can afford.
- ▶ Take a close look at the benefits and features of the card and be sure the benefits you will get from the card you choose will make the annual fee worth the cost.
- ▶ Be sure you are aware of other fees that may be applied to you such as a paper statement fee, or an inactive credit balance fee if you don't use your card for a set amount of time.
- ▶ Some financial institutions will offer a reduced annual fee on a credit card or may even waive it when you open a certain account type.
 - Be sure you know how long the annual fee will be waived and what conditions you need to meet for it to be waived or reduced
 - Know what the fee will be after the annual fee waiver period ends.

2. FEATURES AND BENEFITS

- ▶ Most financial institutions have a wide variety of credit cards for you to choose with their own features and benefits
 - The one with the most reward points may not be the best card for you.
 - Think about your lifestyle, how much you can afford to pay for an annual fee and how any reward points or cash back options will help you reach your financial goals.

- ▶ Often the annual fee and the rewards and benefits are related.
 - Some credit cards have no annual fee and do not offer any reward points or cash back options. If you just need a card for emergencies, this may serve you well.
 - Other cards may charge a higher annual fee but come with a variety of rewards.
 - Be sure the way you earn rewards will work with your spending habits and that the corresponding reward options are ones that can benefit you and your lifestyle.
 - Generally, the higher the annual fee, the higher the rewards.
 - Don't get caught up in the potential rewards. Be sure your spending habits will allow you to earn enough of those rewards to make the higher annual fee worth it.

3. INTEREST RATE

- ▶ Some will have a higher interest rate and some will be lower.
- ▶ Know how much you will pay in interest if you carry a balance on your card.
 - If you expect to carry a balance regularly, be sure you choose a credit card with a lower interest rate... or consider a revolving line of credit with your F.I. that may have an even lower interest rate.

4. STORE CARDS

- ▶ Many stores and companies are offering their own credit card that allows you to capitalize on rewards for shopping at their stores.
- ▶ These are fairly easy to get but before you sign up for one, be sure you understand all the terms and conditions.
- ▶ They may allow you to build points that you can spend to get free stuff at their store. Be sure you shop in that location often enough to make it worth the annual fee.
- ▶ Know what the interest rate is on the card as these cards often have an even higher interest rate than credit cards you get from a financial institution.

5. EXTRA PERKS

- ▶ Some cards will offer you extra perks, such as purchase protection, travel insurance, car rental insurance, etc.
- ▶ Know what perks your card offers and make use of them when you can.
- ▶ Try to match your credit card to your lifestyle.
 - eg. If you travel a lot, a credit card with travel-based rewards and points may serve you best. But if you don't travel much, then you may miss out on a lot of points and rewards.

6. CREDIT CARD LIMIT

- ▶ The credit card limit you need will depend on how you intend to use your card.
 - May change over time. In some stages of your life, you may need a higher limit than you do at other stages.
- ▶ Don't have a credit limit that is uncomfortably high.
 - If a higher limit will tempt you to spend more money, then keep your credit limit low.
 - Be sure you can manage the debt easily and responsibly if you have to use your full credit limit.
- ▶ Don't have a credit limit that is too low
 - You need to be able to make your usual purchases and still keep your credit utilization rate low enough that it doesn't negatively affect your credit score.
 - Have a high enough credit limit to afford the things you need and have a bit of a cushion for emergencies.
- ▶ If you are considering your first credit card, you may not have a choice on your credit limit as you may need to build a credit history first.
 - After a year or so of responsible use, you may be able to call and increase your limit or your credit card company may begin to offer you higher credit card limits.

7. TERMS & CONDITIONS

- ▶ It is very important that you understand the terms and conditions for your credit card when you sign up as it is a legally binding contract.
- ▶ You can benefit from knowing some of the perks included in your credit card that aren't advertised as the main features of the card.
- ▶ It will help you understand what fees and interest rate you will have to pay and the situations that will trigger those fees and charges.
- ▶ Look for the credit limit on your card so you will know what it is and be sure to stay within that limit.
- ▶ Look for the included features and benefits of the card, what rewards it offers and how you accrue points or cash back, what other insurances and benefits it includes. Be sure they provide a benefit to you.
- ▶ Understand the interest rate on your card and how it works.
 - Interest rates are charged on purchases and cash advances but the rate may be different for each one.
 - If there is an introductory interest rate, be sure you know when it will end and what the interest rate will be after the promotional period.
 - Credit card interest rates can be quite high which will increase the cost of your purchases very quickly if you don't pay off your card balance in full each month.
 - Check how the interest is calculated on your purchases and cash advances.

8. GRACE PERIOD

- ▶ This is the amount of time during which you won't be charged interest on your credit card purchases.
- ▶ Generally the time between the last day of your monthly billing period and the payment due date.
- ▶ In Canada, it is usually around 21 days and, if you pay off your card on time and in full, you won't be charged interest on your purchases during this time period.
 - The credit card company assumes you will pay off those purchases in full once you receive the statement.
- ▶ Be sure to know what the grace period for your credit card is and how it works.
- ▶ There are some exceptions to this grace period so you should be aware of what exceptions apply to the card you choose.
 - Any cash advances, balance transfers and convenience cheques do not usually have a grace period and you will begin to accumulate interest on those items immediately.
- ▶ On your other purchases, if you do not pay your balance in full by the next billing date, you will lose the benefit of the grace period and will be charged interest going back to the purchase date.
 - This will cause you to accrue a lot of interest on your purchases even if you make partial payments.
 - eg. If you spend \$450 on an item on July 6 and your credit card billing cycle ends on July 15 and your payment is due August 5, the grace period would run from July 15 to Aug 5. BUT, if you only pay \$300 on August 5, you will forfeit the grace period and will be charged interest on the full \$450 from July 6 until the due date of August 5. Then, if you pay off the last \$150 five days later on August 10, you will pay interest on the remaining \$150 for the five days between August 5 and August 10.
 - Credit cards generally have very high interest rates and this can cause your balance to grow very quickly making it harder and harder to pay off if you don't pay your balance in full and on time every month.

8. MINIMUM MONTHLY PAYMENT

- ▶ This is usually a very low percentage of the amount you spent.
- ▶ While making the minimum payment amount is great for keeping your credit card account in good standing, it's not a good practice to only pay the minimum payment amount.
- ▶ If you only make the minimum payment, you will be charged interest and your debt will grow quickly.

9. LATE PAYMENTS

- ▶ We all face tough times or get busy and forget to pay our bills so it's a good idea to know what will happen if you make your credit card payment late.
- ▶ You will likely be subject to late fees and interest charges. Be sure you know what those are.
- ▶ If you feel like you may forget to make payments, consider setting up your credit card bill payment as a pre-authorized payment from your bank account.

10. FOREIGN EXCHANGE RATES

- ▶ If you travel or make online purchases in other countries, it's a good idea to find out what foreign exchange rates you will pay if you use your card to make purchases in a foreign currency.
 - ▶ Unless you have a credit card with special foreign exchange benefits, any purchases you make in a foreign currency will be charged a foreign currency exchange rate which fluctuates with the market daily.
 - ▶ You may also be charged an additional fee on top of the exchange rate by your credit card company and possibly one from the merchant as well.
 - Even if your card offers a no foreign currency exchange fee benefit, you may still be charged other foreign currency related fees and it's important to know what they are.
 - ▶ If you return or exchange an item that was purchased using foreign exchange, it will be subject to the daily exchange rate for the day on which you are returning or exchanging it so it may not be the same amount as it was when you paid for the item.
 - You may lose money or gain money on that transaction depending on the current market.
-

CONCLUSION

Considering these factors should give you a good start as you begin to sort through the credit card options available to you. If you're still having trouble choosing, make an appointment to talk with someone at your financial institution. They will be happy to help you make sense of your options and choose the right card for you.