

## Borrowing – Choosing a Credit Card

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

A good place to start is to look at the annual fees for the different card options. How much are you willing or able to pay for your credit card annual fee? As credit card options can range from a no-annual fee or low-annual fee credit card to ones with an annual fee that costs a few hundred dollars per year, it's important that you 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 that the benefits you will get from the card you choose will make the annual fee worth the cost. You will want to make 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, as well as what the fee will be after the annual fee waiver period.

Most financial institutions offer a wide variety of credit cards for you to choose from and they each have their own features and benefits. Be sure to take the time to look at all the features of each card to determine which one is best for you. The one with the most reward points may not necessarily 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. For example, some credit cards have no annual fee and do not offer any reward points or cash back options. If you just need a card to use for emergencies, this may suit you well. Other cards may charge a higher annual fee but come with a variety of rewards. Make 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. But don't be 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.

Consider the interest rate on each of the credit card options. Some will have a higher interest rate and others will be lower. Be sure you understand 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 maybe you should consider a revolving line of credit with your financial institution that may have a lower interest rate than any of the credit card options.

These days so many stores and companies are offering their own credit card that allows you to capitalize on rewards for shopping at their stores. These credit cards are often fairly easy to get but before you sign up for one, be sure you understand all the terms and conditions. They may offer discounts on purchases or 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 and check to be sure you know what the interest rate is on the card as these cards often have a higher interest rate than credit cards you get from a financial institution.

Some cards will offer you extra perks. Things such as purchase protection, travel insurance, car rental insurance, etc. Make sure you know what perks your card offers and make use of them when you can. Try to match your credit card with your lifestyle. For example, 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 that you could earn with a credit card more aligned to your interests and lifestyle.

You will also need to consider how much of a credit card limit you will need. It may depend on how you intend to use your card. And, like so many financial decisions, this is something that may change over time. In some stages of your life, you may need a higher limit on your credit card than you do at other stages. Make sure you 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 that you can manage the debt easily and responsibly if you have to use your full credit limit. On the other hand, you want to make sure you don't have a credit limit that is too low. You want a credit limit that will allow you to make your usual purchases and still keep your credit utilization rate low so that it doesn't negatively affect your credit score. You also want to be able to have a high enough credit limit to afford the things you need, and have a bit of a cushion for an emergency. If you are considering your first credit card, you may not be given a choice on your credit limit as you may need to build a credit history first. However, after a year or so of responsible use, you may be able to call and increase your limit, if needed or your credit card company may begin to offer you higher credit card limits. Be sure you think through what limit you can handle responsibly.

It's very important when you apply for a credit card that you understand the terms and conditions. We all know that terms and conditions can be long, legal documents that make better sleep aids than good reading. However, 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. While it may be boring and tedious reading, 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 also help you to understand what fees and interest rate you will have to pay and situations that will trigger those fees and charges. When you read through the terms and conditions, look for the credit limit on your card. Make sure you know what it is so you can 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, and ask yourself if these features are ones that provide benefit to you and your lifestyle. Make sure you know what the interest rate is on your card. 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. You should also check to see how the interest is calculated on your purchases and cash advances.

Most credit cards have a grace period. This is the amount of time during which you won't be charged interest on your credit card purchases. This is generally the time period 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've paid off your credit card on time and in full, you won't be charged interest on your purchases during this period. The credit card company assumes you will pay off those purchases in full once you receive the statement. Make sure you know what the grace period for your credit card is and how it works. There

are also exceptions to this grace period and you should be aware of what those exceptions are on 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 off 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 can cause you to accrue a lot of interest on your purchases even if you make partial payments. To give you an example, 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. However, 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. Most credit cards have very high interest rates and this can cause your balance to grow very quickly making it harder and harder to pay off. This is one reason why it's so important that you pay off your credit card balances in full and on time every month.

You will also want to know what the minimum monthly payment on your credit card will be. This is usually a percentage of the amount you spent. It's usually a very low percentage of your balance and so, while making the minimum payment amount is good 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 continue to grow very quickly.

You need to know what a late payment will cost. We all face tough times sometimes or get busy and forget to pay our bills on time 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. Make sure you know what those are. And, if you feel like you might forget to make your payments, consider setting up your credit card bill payment as a pre-authorized payment from your bank account so you won't forget to pay your bill and open yourself up to the added cost of fees and interest charges.

You may also need to know how your credit card handles foreign exchange. If you travel, it's a good idea to check the terms and conditions to find out what foreign exchange rates you will pay if you use your credit card in a foreign country. Unless you have a credit card with special foreign exchange benefits, any purchases you make in a foreign currency will be charged a foreign exchange rate which fluctuates with the market daily. Often you will 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. If your card offers a no foreign currency fee benefit where you don't pay the foreign exchange fee, 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.

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