

Borrowing – Credit Cards: Introduction

Credit Cards

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 and 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. It's also important to know that your credit report will contain information on how you manage your credit card.

Credit Card Advantages

If you're considering getting a credit card, there are a lot of advantages to credit cards.

Credit cards allow you to buy now and pay later so you don't need to wait to purchase items you need. The trick to this is being sure you use your credit card responsibly. If you need to make a purchase a few days before your payday, then 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 the money without having to pay interest. If you can do this, you can borrow money and not pay any interest which means you will not pay more than the purchase price for your item.

Another advantage is that credit cards are convenient. You don't have 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. Just be careful not to allow the convenience to cause you to overspend on your credit card and put you into debt. If you are susceptible to overspending, it might be better to use your debit card for your everyday purchases.

Your credit card statement is a reliable form of recordkeeping. Each month, you'll be able to see your credit card spending for the past month. This can be helpful in budgeting. It's also a good idea to check your statement each month to ensure that no fraudulent transactions have been made.

Credit cards are versatile. You can use a credit card in places and situations that you can't use cash or debit cards such as making online purchases, booking hotel rooms and making international purchases online or when traveling.

Credit cards are secure and provide purchase protection. Credit cards also 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. As long as you 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 and conditions and you use reasonable care in safeguarding your card (such as not sharing your PIN or lending out your card) you can be confident that you will be reimbursed for any unauthorized purchases.

Credit cards allow for cash advances. If you're in a pinch and need cash quickly, you can use your credit card to get a cash advance. However, keep in mind that cash advances may have a higher interest rate and are not usually included in your credit card's grace period so you will begin paying interest on those

advances immediately. So, it's good to avoid them when possible and have a good plan for paying back those advances quickly when you do use them.

Many credit cards also come with some perks. Most financial institutions offer a wide range of credit cards that usually include a rewards system for using your card... such as points or cash back. Be sure to take the time to look at all your options when choosing a credit card and choose the one that will suit you, your spending habits and your lifestyle best. Some cards may also provide benefits you aren't even aware of such as travel insurance, and purchase protection where the credit card company will reimburse you for purchases that become damaged or stolen up to a certain dollar amount.

Credit cards, when used responsibly, can help you build a good credit history. When 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 much easier when you need to borrow money, as lenders will be much more willing to lend you money and may even offer you a better interest rate.

Disadvantages of Credit Cards

Credit cards themselves don't really have any inherent disadvantages. The disadvantages tend to come from poor credit card management.

A huge disadvantage is the interest charges that you pay if you carry a balance on your credit card. So if you buy something and don't pay it off right away, you will be charged interest on that amount, making your purchase more expensive. Often the interest rates on credit cards are much higher than the interest rate on bank loans and if you carry a balance, it can add up quickly.

Credit cards can be very convenient which can also be a disadvantage. Because they're 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.

Credit cards cost money. Some credit cards charge annual fees. You may also have to pay a fee for any cash advances you do. As we mentioned earlier, credit cards also have high interest rates. Make sure that 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 might need to look at switching to another card or not using a credit card at all.

While credit cards have many effective security features, scammers will often target credit cards and so you will need to be diligent in checking your credit card statement to be sure that it doesn't contain any fraudulent, unauthorized transactions. Be sure to do this on a regular basis as often 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 card security practices such as protecting your PIN, keeping your card in a safe place, and ensuring you only use your card in safe situations and on secure websites. Our Card Security Tips lesson will provide more information on how to use your cards safely.

You must understand the terms and conditions of your card. If you sign up for your credit card and are offered a promotional interest rate, 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.

Credit cards affect your credit report. So, while good credit card management can help build a good credit score, on the flip side, 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.

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 will be happy to answer any questions you may have or get you pointed in the right direction.