

Module 6 - Credit Basics

HANDOUT 6-2

Credit card features

Annual fee: A yearly fee you pay for the use of a credit card.

- Fees vary. Not all cards have fees
- Cards with fees usually have some benefit, such as lower interest rates, reward programs, or higher credit limits.

Annual Percentage Rate (APR): APR describes the interest for a whole year rather than just a monthly rate.

- Different credit card types have different APRs. It is important to compare them
- If you do not pay your balance in full each month, you are charged interest from the moment you buy something.

Credit limit: The maximum amount you can borrow on your credit card.

Grace period: The amount of time you have to pay the balance on the card before you are charged interest.

- Grace periods start on the date listed on your credit card bill. They must be at least 21 days
- If you pay in full each month by the due date, you will not be charged interest.

Minimum payment: The smallest amount you must repay, usually 2% to 10% of your balance owed.

- If you only pay the minimum payment, the interest compounds. That can make the actual cost of your debt very high.

Rewards programs: Allow you to collect points or air miles every time you use your card. You redeem them later for goods, services, or travel.

Insurance and other benefits: Some cards come with insurance for rental cars, travel, and life insurance. Some have balance protector insurance that will pay off the balance on your card if you lose your job, become ill, or die.

Cash advance: Allows you to borrow cash from your credit card. There is usually no grace period. That means interest charges begin from the time of the advance. They often have a higher interest rate.

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HANDOUT 6-2, continued

Choosing a credit card

Step 1 – Know your wants and needs

What will you be using your credit card for? Will you use it mostly for large purchases, or will you use it more often? Knowing how you will use the card can help you narrow down which options are best for you.

Step 2 – Do your research

Take the time to look into the different features and services you can get. Some cards have no annual fees. Others have low interest rates. Some have rewards programs that could help you save money. Choose the card that will meet your needs for the lowest cost.

Step 3 – Shop around

Once you know which features are important to you, compare cards offered through different financial institutions. The cost for features may vary between cards, such as annual fees and interest rates.

The Financial Consumer Agency of Canada (FCAC) has a Credit Card Selector Tool on its website. Use it to help you select the best card for you. <http://www.fcac-acfc.gc.ca/eng/consumers/ITools/Credit-Cards/default.asp>

Step 4 – Read the fine print

Before you sign any credit card agreement, read it with care. Make sure you are getting what you think you are getting. Check for hidden costs. Ask questions if there is something you do not understand. This is your money!

For example: **Introductory interest rates** - are sometimes offered to newly issued credit cards and on balance transfers. **Limited time only!** As soon as the introductory period ends, the interest rate increases to the usual rate. Read the contract carefully!

***NOTE:** Prepaid cards are NOT a form of credit.

- Some are single use or reloadable
- Can get one regardless of credit history
- Won't help you establish or improve your credit history
- Some have costs or conditions.