



Financial Consumer  
Agency of Canada

Agence de la consommation  
en matière financière du Canada

CREDIT CARDS AND YOU SERIES

# CHOOSING THE RIGHT CREDIT CARD FOR YOU



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Agency of Canada

IT PAYS TO KNOW.

Canada 

## About FCAC

With educational materials and interactive tools, FCAC provides objective information about financial products and services and informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. Through its financial literacy program, FCAC helps Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC also makes sure that federally regulated financial institutions respect the laws and agreements that protect consumers.

You can reach us by phone through our toll-free Consumer Contact Centre at 1-866-461-3222 (TTY 613-947-7771, or 1-866-914-6097), or by visiting our website at **[fcac.gc.ca](http://fcac.gc.ca)**.

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# OVERVIEW

Choosing the right credit card for you can be a challenge. There are hundreds of different credit cards to choose from, each offering a different combination of interest rates, fees, benefits and rewards. Taking some time to shop around and weighing your options carefully can help you find a credit card that suits your lifestyle and budget.

## *Choose the right credit card for you with FCAC's Credit Card Selector Tool*

Once you've finished reading this publication, visit FCAC's website at **fcac.gc.ca** and try our *Credit Card Selector Tool*. The tool allows you to compare features and costs of over 250 credit cards and find the card that best suits your needs.

# BEFORE YOU START LOOKING

Before you start shopping around for a credit card, think about how you will use it and set some guidelines for yourself. Here are five key points to remember:

1. A credit card doesn't increase the money you have available, so all of your credit card spending should fit within your regular household budget.
2. Using a credit card to get cash (called a cash advance) or for other cash-like transactions, such as a wire transfer or money order, is generally not a good idea. It costs you interest from the date of the transaction. If possible, use your debit card instead.
3. If you pay your credit card balance in full every month **and** you don't use the card for cash advances or cash-like transactions, you will never have to pay interest. If you **don't** pay in full, the interest charges you pay will increase the cost of everything you buy with the card.
4. If your credit card balance grows from month to month, that's a sign that you are overspending and could be on the road to serious debt problems. Stop using your card until you get your debt under control.
5. Applying for a new credit card because you have reached your credit limit on your other cards is not a good solution to managing your debt. Instead, look seriously at how you can reduce spending. As you adjust your budget, remember to include regular payments to pay off your credit card debt.

Most credit cards, whether they are standard, gold or platinum, have the same basic function: they offer a convenient way to pay for goods and services. The main differences are in three areas: interest rates, fees, and rewards and benefits. Looking carefully at those details will help you find the right credit card for you.

# CONSIDER THE INTEREST RATES

If you plan to pay your balance in full every month and don't use the card for cash advances or cash-like transactions, you won't pay any interest. In this case, the interest rate may not be an important factor in choosing a credit card.

However, if you usually carry a balance on your credit card, you may benefit from switching to a low-interest rate card, even if it has an annual fee. Many regular credit cards, including standard, gold and platinum cards, have low-rate options available.

If you often carry a balance on your credit card, you may want to consider other ways to borrow money that will cost you less in interest. The interest rates for a personal loan or a line of credit are usually lower than on a low-rate credit card, and there is usually no annual fee.

## EXAMPLE: COMPARING LOW-RATE CARDS TO REGULAR-RATE CARDS

Samantha already has a credit card and is trying to decide whether she should switch to a low-rate card. She regularly carries a balance. She compares two credit cards:

- a regular card with an interest rate of 19% and no annual fee;
- a low-rate card with an interest rate of 12% and an annual fee of \$50.

Samantha then compares the total costs of the cards, including annual fees and interest, for two different outstanding balances for a year: \$500.00 and \$1,000.00.

### Assumptions:

- The outstanding balance stays the same for the whole year.
- All transaction types have the same interest rate.

### Regular-rate (19%)

| Balance owing | Interest | Annual fee | Annual cost<br>(not including<br>payment of balance) |
|---------------|----------|------------|--|
| \$500.00      | \$95.00  | \$0        | \$95.00  |
| \$1,000.00    | \$190.00 | \$0        | \$190.00   |

### Low-rate (12%)

| Balance owing | Interest | Annual fee | Annual cost<br>(not including<br>payment of balance) |
|---------------|----------|------------|--|
| \$500.00      | \$60.00  | \$50.00    | \$110.00   |
| \$1,000.00    | \$120.00 | \$50.00    | \$170.00   |

If Samantha carries a balance of \$500.00, the regular-rate card is less expensive because it has no annual fee. However, as the amount she owes increases, the interest rates make a greater difference. With a balance of \$1,000 owing, the low-rate card's annual cost is \$20 less expensive than the regular-rate card's. However, she will still pay \$170.00 in fees and interest.

Samantha should aim to pay off this debt as fast as possible to reduce the interest she has to pay every month.

## Introductory low-rate offers

To encourage you to apply for their cards, some credit card issuers will sometimes offer low introductory interest rates on newly issued credit cards and on balance transfers. (A balance transfer is the transfer of an outstanding credit card balance from one card to another.) **Generally, the low-interest rate will apply for a limited time only.** As soon as the introductory period ends, the rate increases to the card's usual rate.

Read the application or agreement carefully to be sure that you understand exactly when the promotional rate ends and what the interest will be at that time. Also, consider these questions:

- **What type(s) of transactions does the introductory low-rate apply to?**

Credit card issuers can charge different interest rates for different types of transactions, such as balance transfers and purchases. Some low introductory rates apply only to a certain type of transaction. Be sure you know what the low rate covers.

- **Are there any other fees or conditions that apply to the offer?**

For example, will the introductory rate end if you make a late payment or if you go over your credit limit? If so, what will the new rate be?

- **What interest rate will apply at the end of the introductory period?**

You can compare interest rates using FCAC's *Credit Card Selector Tool* at [fcac.gc.ca](https://fcac.gc.ca).

## CONSIDER ADDITIONAL FEES AND COSTS

Credit cards may have other fees and policies that can increase your costs. For example, if you miss a payment, some credit card issuers may increase the interest rate that you pay. The amounts of these fees and charges vary from one credit card to another, and you should consider them carefully when choosing a card.

By law, all federally regulated financial institutions have to include information about fees and charges in their credit card applications. The information has to be clearly set out in an information box at the beginning of either the application, or a related document that you receive at the same time. Be sure you understand all of the fees and charges that apply to a credit card **before you complete the application**.

### What are federally regulated financial institutions?

Federally regulated financial institutions include

- all banks,

and all federally incorporated or registered

- insurance companies,
- trust companies,
- loan companies, and
- co-operative credit associations that carry on business in Canada.

For a list of federally regulated financial institutions, visit the website of the Office of the Superintendent of Financial Institutions (OSFI) at [www.osfi-bsif.gc.ca](https://www.osfi-bsif.gc.ca), and click on "Who We Regulate".

Some of the fees and charges could include:

- annual card fees
- annual fee for an additional card
- fees for cash advances and cash-like transactions
- foreign currency conversion charges
- charges for going over your credit limit
- fees for dishonoured payments (for example, an NSF cheque)
- fee for maintaining an inactive account
- interest rate increases for missed payments.

You can avoid many of these fees and charges by using your credit card wisely. For more detailed information on credit card fees and penalty charges, read the publication *Understanding Credit Card Fees*. You can also compare fees and other costs using FCAC's *Credit Card Selector Tool*. These resources are available at [fcac.gc.ca](https://fcac.gc.ca).

## CONSIDER THE REWARDS AND BENEFITS

If you usually pay off your credit card balance every month, then rewards and benefits may make an important difference for you when you choose a credit card. Before you decide, be sure to consider the following:

### Actual value of the reward program

The value of any rewards and benefits you receive should be greater than any cost you pay to get them. Otherwise, they aren't worth it.

Some cards offer rewards and benefits with no annual fee. If you are considering a card with an annual fee, make sure it offers you better value than a no-fee card. Before making a decision, compare its annual cost to the **additional** rewards and benefits that it offers over the no-fee card.

When you compare the rewards and benefits that different cards offer, estimate the value of the benefits realistically. Ask yourself:

- **How likely are you to use each benefit?**
- **How long will it take you to earn a reward?**

For example, if you think you will earn 5,000 points a year, and the reward you want costs 50,000 points, you will take **10 years** to earn enough points for it.

- **Do you already have access to the benefit some other way?**

For example, if the card offers insurance on rental cars, check whether your own auto insurance policy provides that coverage already.

Putting an actual dollar value on some rewards and benefits can be difficult. The examples below will give you an idea of how to do so.

### EXAMPLE: CASH-BACK REWARD

Eric pays an annual fee of \$85.00 for his credit card. He pays his balance in full each month and he gets 1% cash-back on purchases. He purchased a total of \$4,800.00 using the card in one year (an average of \$400 a month).

#### *Value of reward*

Eric would receive \$48.00 (1% of \$4,800.00) at the end of the year. Comparing this amount to the \$85 annual fee that Eric paid, this particular reward program would not be worth the cost, unless other benefits on the card provide more value to him.

### EXAMPLE: INSURANCE BENEFIT

James pays an annual fee of \$110.00 for his credit card. He's renting a car for seven days, and he doesn't have coverage for rental vehicles under his own insurance.

James' credit card offers rental vehicle insurance for up to seven days per year. The vehicle rental agency that James will use charges \$20.00 a day for vehicle insurance.

#### *Value of reward*

James would have paid \$140.00 for car rental insurance if he had bought coverage from the rental outlet. He avoided the insurance costs by using the rental insurance provided by his credit card.

Comparing this amount to the annual fee of \$110 for the card, James saved \$30 with this reward.

If he doesn't plan to rent a car next year, he should review whether the card would still be the right one for him.

## Limitations

It's very important to read carefully the terms and conditions of any rewards program or benefits you are considering. There may be restrictions and limitations that are not immediately obvious, and they may have an impact on the value and practicality of the rewards and benefits.

You can compare rewards and benefits using FCAC's *Credit Card Selector Tool* at **fcac.gc.ca**.

## CONSIDER WHETHER YOU NEED A SPECIALIZED CREDIT CARD

In addition to standard, gold and platinum cards, there are some specialized credit cards that cater to special needs. Some of these specialized cards include:

### Secured credit cards

A secured credit card is a card that requires you to pay the issuer a security deposit before you can use it. Your credit limit is normally set as a percentage of your deposit (usually 100 percent or more). For example, if you pay a security deposit of \$500, you would normally get a credit limit of \$500 or more.

You might consider applying for a secured credit card if:

- you have no credit history in Canada,
- you've had credit problems in the past and want to rebuild your credit score, or
- you've filed for bankruptcy in the past.

### Student credit cards

Student cards are meant for students with limited incomes and generally have lower credit limits than regular credit cards. Low-interest rate student credit cards are available.

## U.S. dollar credit cards

A U.S. dollar card may be right for you if you often shop in the United States and have a U.S. dollar account you can use to pay your credit card bill. With a U.S. dollar card, no foreign currency conversion mark-up is applied to purchases in U.S. dollars.

## Retail credit cards

Retail cards offer discounts or reward programs at specific stores or retailers. Retail cards generally have much higher interest rates than regular credit cards. This type of card can usually be used only at the store that issued the card.

A retail card may be worthwhile if you shop at one particular store enough to benefit from its reward program. Be sure to weigh those potential benefits against any interest or fees you may pay.

### Caution:

Sometimes retailers offer extended interest-free periods on purchases made with their credit card. The terms and conditions of these offers can vary, but generally, if you haven't paid the balance **in full** by the time the interest-free period ends, you will have to pay interest from the date you made the purchase. Since the interest rate for retail cards is higher than for regular credit cards, this can end up being very expensive.

Retailers will also sometimes offer you an instant discount on your purchases if you sign up for and use a store credit card. While the discount is attractive, keep in mind that the interest rate on any balance that you carry on the card is generally much higher than with regular credit cards. If you aren't able to pay off the balance right away, the interest costs could be more than the discount.

Compare specialized credit cards with FCAC's *Credit Card Selector Tool* at **[fcac.gc.ca](https://fcac.gc.ca)**.

# ABOUT THE *CREDIT CARDS AND YOU* SERIES

FCAC's *Credit Cards and You* series will help you answer the questions you may have about credit cards. The following resources are part of the series and are available on FCAC's website at **fcac.gc.ca**:

## Publications

- Choosing the Right Credit Card for You
- Understanding Credit Card Fees
- Credit Cards: Understanding Your Rights and Responsibilities

## Tip sheets

- Be Smart with Your Credit Card: 10 Tips to Help You Use Your Credit Card Wisely
- Protect Yourself from Credit Card Fraud

## Online tools

- Credit Card Selector tool
- Credit Card Payment Calculator

## Online Quiz

- Credit Card Quiz