



Shopping Around for a Line of Credit

WHAT IS A LINE OF CREDIT AND HOW DOES IT WORK?

A line of credit is an arrangement you can make with your financial institution that allows you to borrow money up to a pre-determined limit. As you pay down your line of credit, you can draw on it again, back up to the limit you are allowed.

You can withdraw money from your line of credit at any time — by writing a cheque, by withdrawing funds from an automated banking machine (ABM), or by using telephone or on-line banking. You will have to pay interest on the amount you borrow. Usually, you receive a monthly statement that shows your balance, which is the current amount that you owe. You must make at least a **minimum** payment on that balance every month. Subject to the terms and conditions of your line of credit agreement, you may also pay off part of your balance, or the entire amount, at any time — without any penalty.

How do you qualify for a line of credit?

You have to **apply** for a line of credit. Some of the things a lender will look at, to determine whether or not to approve your application for a line of credit, are as follows: your income (usually, a minimum household income of \$35,000 to \$50,000 is required); your current level of debt with other financial institutions; and your past record of paying your bills or paying back money you borrowed (this is called your “credit rating”). These factors will also determine how much credit the lender will grant you on your line of credit (this is called your “credit limit”) and may also influence the interest rate that you will have to pay on your account.

What are the advantages of a line of credit?

- A line of credit can be a cost-effective, convenient way to borrow money for a short period of time.
- Interest rates that apply to lines of credit are usually lower than those on credit cards, personal loans or other short-term loans.
- There are usually no fees to set up a personal line of credit.
- Subject to its terms and conditions, you can use your line of credit for any type of purchase, including paying off other high-interest debts; paying for postsecondary education; or paying for a trip or for another large purchase, such as a car.
- Subject to the terms and conditions of your line of credit agreement, you usually do not have to pay a penalty if you want to pay off the entire balance of your line of credit. You can do this at any time.
- There is usually no annual fee for a line of credit.
- If you have a bank account with the same financial institution that you use for your line of credit, you can arrange to have any overdraft you incur on your regular bank account transferred to your line of credit. This will save you from having to pay overdraft fees, fees for non-sufficient funds (NSF), or other such fees.

What are the disadvantages of a line of credit?

- The interest rate on a line of credit can go up or down, depending on market conditions.
- If interest rates increase a lot, this might affect your ability to pay back your loan.

What do you need to know when shopping around for a line of credit?

Before shopping around for a line of credit, here are some key questions you will have to get answers to:

- What do you want to do with the money? You can pay off the balance on higher interest-rate credit cards, finance a renovation, or pay for your child's postsecondary education.
- How much do you want to borrow? Try to limit this amount to what you can comfortably afford.
- How much will you be able to pay back each month? To lower the amount of interest you will have to pay, try to pay back as much as possible.
- Do you need insurance on your line of credit, to protect you and your family if you become disabled or die? If you are borrowing a large amount of money, check if the amount of insurance you already have is sufficient, and purchase more insurance, if you need it.
- Would you benefit from mortgaging your home as security for your loan? Check if there are any other fees you will have to pay.

When shopping around for a line of credit, be aware that the interest rate and the terms of the line of credit are negotiable.

Where to go for more information

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians about their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can reach us by calling our Consumer Contact Centre toll-free at: 1-866-461-3222 (our TTY number is 613-947-7771 or, toll-free, 1-866-914-6097), or by visiting our Web site at: www.fcac.gc.ca.

If you would like more information about how to save money with a low-rate credit card or a line of credit, consult FCAC's *Credit Cards and You*, which is available on our Web site or by telephone.