



Financial Consumer
Agency of Canada

Agence de la consommation
en matière financière du Canada

CREDIT CARDS AND YOU SERIES

UNDERSTANDING CREDIT CARD FEES

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**.

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OVERVIEW

Just as different credit cards have different interest rates, rewards and benefits, the fees charged on credit cards can vary from one credit card to another.

You can avoid many of those fees by making smart choices. Understanding how fees work will help you to shop around for a credit card that suits your needs, and reduce your costs at the same time.

Federally regulated financial institutions, such as banks, are required by law to tell customers about the fees they charge. The credit card application forms they distribute must have this information in an information box at the beginning of either the application, or a related document that you receive at the same time. When you enter into the contract, the credit card issuer must tell you about these fees in your credit card agreement. The issuer must also inform you each time it changes the fees.

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, and click on “Who We Regulate”.

TYPES OF FEES

Annual fees

Some credit cards charge you a fee each year for the right to use them. This fee is billed directly to your credit card statement. There may be an additional fee if you request another card for the same account.

Cards with an annual fee often offer more rewards and benefits, or a lower interest rate. Before you apply for one, consider carefully how you will use the card and whether the features and rewards are worth the cost to you. If not, you are better off saving your money and choosing a card with no annual fee.

Cash advance fees

You have to pay a fee, called a “cash advance fee,” whenever you

- use your credit card to withdraw cash from an automatic banking machine (ABM),
- use your card to withdraw cash at a bank branch,
- use “convenience cheques”, depending on the issuer (see page 4 for more information on convenience cheques), or
- charge cash-like transactions to your credit card (see page 4 for more information on cash-like transactions).

A cash advance fee can be

- a fixed amount per transaction,
- a percentage of the transaction, or
- a fixed amount plus a percentage.

Some credit card issuers set a minimum and a maximum cash advance fee.

In addition to the cash advance fee, the credit card issuer will charge interest starting on the date you withdraw the money and continue to charge interest daily until you pay off the entire cash advance amount. Cash advances can be an expensive way to replenish the money in your wallet; if possible, use your debit card instead.

If you use cash advances, you should try to pay off as much of your balance as you can, as early as possible, because the interest charged on cash advances costs you more each day you wait. **You can make payments to your credit card account at any time** – you don't have to wait for your statement.

TRANSACTIONS THAT ARE TREATED LIKE CASH ADVANCES

Balance transfers

A balance transfer is the transfer of the amount you owe from one credit card to another. You might have to pay a fee as well as interest charges to the issuer of the card that you transfer your balance to, starting on the date you make the transaction. If you are not sure whether you have to pay a fee for a balance transfer, read your credit card agreement or contact your credit card issuer.

Convenience cheques

Convenience cheques – which are also called credit card cheques – are cheques provided by a credit card issuer. The issuer charges the amount of the cheque to your credit card. They are usually treated in the same way as cash advances.

While these types of cheques may seem convenient, they can actually be very expensive. You are charged interest on this transaction immediately and will continue to pay interest on this amount until you repay the full amount.

If you receive these kinds of cheques as part of a special offer, make sure that you read and understand all of the terms and conditions that apply.

Cash-like transactions

Cash-like transactions are special item purchases that some credit card issuers treat the same way as cash advances.

Cash-like transactions can include:

- **wire transfers:** money sent from one bank to another electronically;
- **money orders:** a type of payment issued by a bank at your request, which is considered more reliable than a personal cheque because the amount is prepaid;

- **traveller's cheques:** prepaid cheques in fixed amounts that allow the person signing them to pay for things;
- **gaming transactions:** these include placing bets and buying casino gaming chips and lottery tickets.

If you are not sure whether a particular transaction will be treated as a cash advance or as a purchase, contact your credit card issuer.

FOREIGN CURRENCY CONVERSION CHARGES

When you use your credit card for a transaction outside of Canada, your credit card issuer charges you the exchange rate plus a foreign conversion mark-up. The foreign conversion mark-up for your credit card is indicated in your credit card agreement.

The foreign currency exchange process varies from one credit card issuer to another, and also depends on which foreign currency is being exchanged.

Some transactions in foreign currencies are converted directly into Canadian dollars, but others may be first converted to U.S. dollars and then to Canadian dollars. The conversion mark-up is applied after the purchase is converted to Canadian dollars.

EXAMPLE:

Émilie made a purchase of €1,000 in Euros with her credit card. Her credit card agreement indicates that her conversion mark-up is 2.5%.

In this example, Euros are changed directly into Canadian dollars at an exchange rate of 1.42231. The exchange rate shown here is for the purpose of this example only.

Purchase	€1,000.00
Value of purchase in Canadian dollars	\$1,422.31
Foreign currency conversion mark-up: 2.5%	\$35.56
Total cost of the transaction	\$1,457.87

Émilie will have to pay \$1,457.87 in Canadian dollars, which includes a foreign currency mark-up of \$35.56.

Returning goods purchased outside Canada

If you decide to return merchandise purchased in a foreign currency and get a refund from the merchant, the dollar amount of your refund may be different from the amount of the original transaction on your credit card statement.

The exchange rate fluctuates from day to day, and the exchange rate may be different on the date the refund was processed than on the original transaction date.

Cash advance fee

A foreign cash advance transaction is the same as a regular cash advance transaction, except that your credit card issuer may charge higher fees for these transactions in a foreign country. **This fee would be in addition to the foreign currency conversion mark-up.**

PENALTY COSTS

Over-the-limit penalty

Your credit limit is the maximum amount that you are allowed to spend on your credit card. Your credit card issuer decides whether to allow any transactions to go through if you go over your credit limit. If you do go over your credit limit, you may have to pay a penalty, which can vary from one card issuer to another.

The credit card issuer will not inform you if you are about to go over your credit limit when you make a transaction. It is your responsibility to pay attention to your balance and make sure you don't go over your credit limit.

If you are frequently close to your credit card limit, you can ask your credit card issuer to stop any transactions that exceed your credit limit. Some credit card issuers may not offer this service. Even if they do, some types of transactions over your limit may still be processed. This is because some sales, usually of low-value items, go through without the issuer being notified at the moment of sale.

Exception: temporary holds on funds

Merchants sometimes put a temporary hold on funds on your credit card to make sure you are able to pay for goods or services you get before you pay for them. By law, federally regulated financial institutions cannot charge over-the-limit fees due to these temporary holds. For example, Steve has \$90 left in his credit limit, and when he uses his card to buy gas at the pump, the gas retailer places a \$100 temporary hold on his card until he finishes his fill-up and pays for it. Steve's fill-up only costs \$20. The credit card issuer cannot charge an over-the-limit fee in this case.

This exception does not apply if Steve goes over his credit limit without the temporary hold. For example, if Steve had \$10 left within his credit limit, and used his credit card to buy \$20 of gas his purchase would take him over his credit limit by \$10. Therefore, he could be charged an over-the-limit fee. The \$100 temporary hold placed on his card would make no difference.

Fees for dishonoured payments

A credit card issuer may charge you a fee to handle a payment that is not honoured, or “bounces.” This fee applies if you:

- make your payment by cheque and the cheque is returned because of nonsufficient funds (NSF),
- make your regular payment by a pre-authorized debit that is rejected because of NSF, or
- use a convenience cheque to get a cash advance on your credit card, and your credit card issuer returns the cheque because you are over your limit.

In addition, the financial institution that holds the account from which you tried to make the payment may charge you a separate NSF fee.

Inactive account fee

If there has not been any activity on your credit card for a period of time – usually at least a year – some credit card issuers will charge you a fee for maintaining an inactive account, or may even close your account. If you no longer need your credit card, make sure you contact your card issuer to cancel it and keep a record of the cancellation.

Simply cutting up your card does not automatically cancel it, even if your credit card has expired. You may still have to pay an inactivity fee, since you did not cancel the card.

Interest rate increase following missed payments

If you miss making minimum monthly credit card payments by the due date, your credit card issuer may increase the interest rate on your credit card. It depends on your issuer, but your regular interest rate will usually go up between 2% and 6%. The increase can be temporary or permanent, depending on the issuer.

By law, federally regulated financial institutions must notify you in advance of an interest rate increase and in some cases provide a reason for the rate increase.

REPRINTING CHARGES

Your credit card issuer may charge you when you request copies of certain documents, such as:

- reprinted statements, and
- receipts from transactions on previous statements.

To find out whether your credit card issuer charges a fee for these types of documents, check the terms and conditions of your credit card agreement or contact your issuer directly.

How to avoid this charge

You may be able to avoid the reprinting charge if you view your credit card statements online, free of charge. Credit card issuers usually allow access to online statements for the previous 12 months. However, to take advantage of this service, you will need to register for it on your credit card issuer's website.

HOW INTEREST IS CHARGED ON CREDIT CARD FEES

Credit card issuers usually treat fees the same way they treat purchases. If you do not pay your balance in full, and on time, you may have to pay interest on these fees until the date payment is received in full. If you are not sure how your credit card issuer handles fees, contact your credit card issuer.

WHAT TO DO IF YOU HAVE A COMPLAINT

All banks, and federally incorporated trust, loan and insurance companies must, by law, have a complaint-handling process in place for consumers.

If you don't know the complaint handling process for your financial institution, you can call us toll-free: 1-866-461-3222 or you can visit our website at fcac.gc.ca and go to the *How to Make a Complaint* section.

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

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

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