



# Be Smart with Your Credit Card: Tips to Help You Use Your Credit Card Wisely

**Credit cards can be useful and convenient. But if you aren't careful about how you use them, you can put yourself on a path to serious financial trouble. You could build up debt that might take you years to pay off or damage your credit rating.**

## **Before applying for a credit card:**

- 1. Know what you're getting into.** When you sign up for a credit card, you are entering into a legally binding contract, so it's important that you understand the terms and conditions.

Credit card applications from federally regulated financial institutions must have an "information box" that outlines key features of the credit card like interest rates and fees. But don't stop reading there. Review the complete terms and conditions so you're aware of other important details, such as:

- your PIN and your liability in case your card is lost or stolen
- who is liable if you share the card with a "joint borrower" or "secondary user"
- any restrictions and limitations on reward programs and benefits
- how to cancel the card.

## When you have a credit card:

- 2. Know yourself and your spending habits.** Before you start shopping around for a credit card, think about how you will use it and set some guidelines for yourself. A credit card doesn't increase the amount of money you have available to spend. Continue to live within your means and your budget.
- 3. Limit the number of credit cards you apply for.** Every time you apply for a credit card, it's recorded by the credit reporting agencies. Applying for too much credit can damage your credit rating by creating the impression that you may be relying too heavily on credit.
- 4. Avoid impulse buys,** especially if you don't have the money available in your bank account to pay for the item. Ask yourself if you really need to make that purchase right away (or at all), or if it can wait until you have the money to pay for it.
- 5. Aim to pay off your balance in full by the due date every month.** Carrying a balance means that everything you charge to your credit card actually costs you more than the purchase price, because you are paying interest.

For example, if you buy a new flat screen T.V. for \$1,000 and pay only the minimum<sup>1</sup> each month, it will take you almost 11 years to pay it off in full and it will have cost you \$1,989 (\$989 in interest) – almost twice the actual price of the T.V.

- 6. If you have to carry a balance, try to make payments as soon as you can** to reduce your costs, because interest is charged daily. And always try to pay more than the minimum amount owing.

Credit card statements for cards issued by federally regulated financial institutions have to include an estimate of how long it would take you to pay off your current balance if you were to only make the minimum payment each month and didn't charge anything else to your credit card. You may be surprised at how long it would take you to pay off a splurge.

- 7. Make regular payments to help build a good credit history.** Paying the balance **in full** every month will show other lenders that you are a responsible borrower. On the other hand, if you make payments late or miss them entirely, you hurt your credit score.

1. Minimum payment calculations vary; for the purposes of the example above, the minimum payment was \$10 or 3% of the balance – whichever was greater.

**8. If your monthly balance is growing, stop using your credit card until you get your finances under control.** Use cash instead of a credit card. Look at your budget for ways to trim your spending.

**9. Avoid taking cash advances on your credit card.** You are charged interest from the day you take the advance until the day you repay the entire amount, and unlike regular credit card purchases, there is no grace period on cash advances from a credit card.

Instead, use your debit card to get cash from own financial institution's ABM, or use the "cash-back" option that some merchants offer when you pay with debit. If you don't have enough money in your account, look at your budget to see where you can trim your spending.

**10. Every month, carefully check your credit card statement** to make sure that there are no errors. It's a good idea to keep receipts for all of your credit card purchases so that you can verify the amounts against your statement. If you find an error, report it to your credit card issuer right away.

**11. If your credit card has a rewards program, avoid increasing your spending or buying things you don't need just to get points.**

**12. If unexpected expenses come up, talk to your financial institution about your options.** There may be alternatives to using your credit card that will cost less in interest, such as a line of credit.

**13. Keep your card, your PIN, and your security code secure.** If you share your PIN or security code, you risk being held financially responsible for unauthorized transactions.

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## About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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