



Managing Your Money

How to Save with a Credit Card

If you want to know more about...

- How to save money with a low-rate credit card or line of credit
- How to save money by paying your bills early
- Money-saving tips for using up a credit balance

...then this booklet is for you!



About FCAC

The Financial Consumer Agency of Canada (FCAC) is an agency of the Government of Canada. It was created to protect the rights of consumers and inform them about financial products and services.

How We Protect You

We make sure that financial institutions regulated by the Government of Canada follow the consumer protection measures set out in federal laws and regulations. We also see to it that they respect their own codes of conduct and their commitments to you, the consumer.

If you'd like to learn more about consumer protection and about the financial industry's codes of conduct, we'd be happy to hear from you.

How We Inform You

FCAC provides information, tips and tools to help you protect your rights and find the financial products or services you need. You can get this information by calling or writing to us, by visiting our Web site or through our free publications.

Contents

About <i>Credit Cards and You</i>	1
Saving Money with a Low-Rate Card or Line of Credit	4
Saving Money by Paying Your Bills Early	6
Making Your Credit Card Payments	8
What Happens If You Make a Late Payment?	8
How to Make Sure Your Payment Is Not Late	9
How to Use Up a Credit Balance	12
Will You Earn Interest on a Credit Balance?	14
Money-saving Tips for Using Up a Credit Balance	14

About Credit Cards and You

Credit Cards and You explains the features and costs of credit cards. It comes in a multi-piece “kit” format containing this guide and other booklets, a glossary of key terms and a worksheet to help you choose a credit card. In addition, several comparison tables help you compare the characteristics of credit cards available in Canada, including the service fees related to certain credit card transactions.

Throughout these booklets you will find references to the kit. If you have not received the full kit and would like to, please contact FCAC for your free copy.

The other documents available as part of the *Credit Cards and You* kit are:

Getting the Most from Your Credit Card: Understanding the Terms and Conditions

Want to save money and avoid problems with your credit card? Understanding your credit card's benefits and risks, how your issuer calculates your interest charges and how you can benefit from introductory rates will help you make the most of your credit card. Read about this and more in *Getting the Most from Your Credit Card*.

Your Rights and Responsibilities: The Cost of Borrowing with a Credit Card

It's important to know about the rights and responsibilities that come with a credit card. Doing so will save you time and money, and will help you stay out of financial trouble. *Your Rights and Responsibilities* tells you all about this.

Managing Your Money: How to Save with a Credit Card

Do you want to lower your interest rate, use up your credit balances wisely and make sure your monthly payments are never late?

Managing Your Money will show you how.

Playing It Safe: How to Protect Your Credit Card and Credit History

Just about everybody has a credit file, but where is it kept and is it accurate? How can you protect yourself if your card is lost or stolen? *Playing It Safe* answers these questions for you, and quite a few more.

Secured Credit Cards

The *Secured Credit Cards* comparison table includes information about secured credit cards and offers a handy comparison table of different secured credit cards available across Canada. If you've had trouble getting an unsecured credit card, the *Secured Credit Cards* comparison table is for you.



Credit Card Comparison Tables

The following pull-outs compare the features and costs of various credit cards available from credit card issuers across Canada:

- Standard Credit Cards (low-rate and regular-rate)
- Gold Credit Cards (low-rate and regular-rate)
- Platinum Credit Cards (low-rate and regular-rate)
- U.S. Dollar Credit Cards
- Student Credit Cards (low-rate and regular-rate)
- Secured Credit Cards
- Retail Credit Cards
- Charge Cards

The following two tables compare the service fees from various credit card issuers that are applicable to certain credit card transactions:

- Service fees on Visa, MasterCard and American Express credit card transactions
- Service fees on retail credit card transactions.

Worksheet to Help You Choose a Credit Card

This handy pull-out is designed to make your comparison shopping easier. Take this easy-to-follow table with you to your credit card issuer and fill it in. When you're finished, you'll have the information you need to choose the best credit card for you.

Glossary of Key Terms Used in This Kit

Annual interest rate, cash advance, grace period, prime rate, security deposit ... these are all important terms that you'll find in the *Glossary of Key Terms Used* in This Kit. Many of the terms you'll find in your credit card agreement are also defined here.

Saving Money with a Low-Rate Credit Card or Line of Credit

The best way to avoid interest on your credit card is to pay off your entire balance every month. If you can't do this, you might benefit by switching to a form of credit with a lower interest rate.

- One option is a low-rate credit card. These cards usually have an annual fee, but they could be beneficial considering that their annual interest rate is around 12 per cent. Other credit cards have interest rates ranging from 16 to 28.8 per cent. Some credit card issuers can offer you the low rate without actually changing your credit card.
- Or, you could keep your higher-interest-rate credit card (it may have attractive extra features) and obtain a line of credit. A line of credit usually carries an interest rate of about 9 per cent, which is even lower than a low-rate credit card. To get the benefit of the low rate, use your line of credit each month to pay your credit card balance in full – you'll also benefit from the interest-free period on new purchases if you pay by the due date.

The following table shows how much you'd save by using a low-rate credit card or a line of credit, instead of a credit card with a higher rate of interest.

	Regular-Rate Credit Card	Low-Rate Credit Card	Line of Credit
Average monthly balance	\$2,500	\$2,500	\$2,500
Annual interest rate ¹	x 18%	x 12%	x 8.75%
Annual interest charges	= \$450	= \$300	= \$218.75
Annual fee ¹	+ \$0	+ \$20	+ \$0
Total annual cost	= \$450	= \$320	= \$218.75
Total annual savings²	–	\$130	\$231.25

¹ Based on the average of the six major banks, caisses and credit unions listed in the comparison tables of this kit for both regular-rate and low-rate cards. For lines of credit, the annual interest rate approximates the November 2003 industry average and will vary between institutions and with your credit rating.

² This example assumes you carry a constant balance of \$2,500 and that you make all minimum payments on time. Otherwise, your interest rate may increase, or you may be subject to additional fees that will increase your overall costs. If you compare the low-rate card with a retail card for the same outstanding balance, the savings are even higher.



Saving Money by Paying Your Bills Early

If you can't pay your credit card balance in full by the due date, you can still save money by paying as much as you can *before* the due date. This reduces your daily balance earlier, so the interest charged on next month's statement will be based on a smaller outstanding balance. The following example shows how this cuts down on interest costs.

Example: Saving Money by Paying Your Bills Early

Mrs. Smith's credit card balance on January 20 is \$3,000, and her next payment is due on February 19. Her card carries an annual interest rate of 18.5 per cent. This works out to a daily interest rate of 0.05068 per cent, which is used in the calculations in the table below. (The daily interest rate is the annual interest rate divided by the number of days in the year.)

Mrs. Smith knows she won't be able to pay the balance in full, but she has \$2,000 she can use for a partial payment. Instead of waiting until February 19 to make this payment, she makes it early, on January 20. By doing so, she saves approximately \$12.00 in interest payments on her February statement. The following table shows how this works.



	No Early Payment <i>(Using Average Daily Balance Method)</i>	Early Credit Card Payment of \$2,000 <i>(Using Average Daily Balance Method)</i>
Jan. 1 to Jan. 4 – No transactions	\$0 for 4 days	\$0 for 4 days
Jan. 5 to Jan. 19	\$0 + \$3,000 purchase of Jan. 5 = \$3,000 for 27 days	\$0 + \$3,000 purchase of Jan. 5 = \$3,000 for 15 days
Jan. 20 to Jan. 31		\$3,000 – \$2,000 payment of Jan. 20 = \$1,000 for 12 days
Calculation of Average Daily Balance	<u>$(\\$0 \times 4 \text{ days}) + (\\$3,000 \times 27 \text{ days})$</u> 31 days in the billing period = Average daily balance of \$2,612.90	<u>$(\\$0 \times 4 \text{ days}) + (\\$3,000 \times 15 \text{ days})$</u> <u>$+ (\\$1,000 \times 12 \text{ days})$</u> 31 days in the billing period = Average daily balance of \$1,838.71
Total Interest Charged	Average daily balance x Daily interest rate x Number of days in the billing period = $\$2,612.90 \times 0.05068\%$ $\times 31 \text{ days} = \mathbf{\$41.05}$	Average daily balance x Daily interest rate x Number of days in the billing period = $\$1,838.71 \times 0.05068\%$ $\times 31 \text{ days} = \mathbf{\$28.89}$
Total Interest Saved	\$0	\$12.16

While her savings of \$12.16 may not sound like a lot, Mrs. Smith has actually lowered her February interest charges by *29.6 per cent*. Over time, reducing your interest charges this way can save you a lot of money, especially if you carry a large balance every month.

Making Your Credit Card Payments

It's important to pay your credit card bill on time. If you don't, you'll face extra interest charges and possible penalties such as an increase in your interest rate. Your credit card issuer might even cancel your card.

What Happens If You Make a Late Payment

If you don't pay by the due date indicated on your statement, you'll be charged interest on the entire amount you owe until you pay it in full. This could also affect your credit history in a negative way.

In addition, if your credit issuer uses "Method 2" of applying the interest-free period, you'll automatically lose the interest-free period on any new purchases that appear on your next statement. This means that, next month, you'll pay interest on all your new purchases, even if you pay that bill on time and in full. *For an explanation of Method 2, see **Getting the Most from Your Credit Card**, available in this kit.*



How to Make Sure Your Payment Is Not Late

Because it's so important to make your credit card payment by the due date, it's a good idea to know how long it will take to process the payment. For example, if you make a payment on a weekend or holiday, it isn't processed until the first business day following that weekend or holiday. Knowing about these delays will help you make your payments on time.

To find out how long it will take to process your payment, look at the following payment options. Since these examples describe the usual amount of time to process a payment, check with your credit card issuer to see whether their processing times are the same.

Option 1: Sending a cheque by regular mail

Allow four to five business days (Monday to Friday, except for statutory holidays) for your bill payment to reach the credit card issuer. Your credit card issuer will usually deposit your cheque on the date it is received (provided it is a business day) and will consider that you have paid it on that date, unless the cheque is post-dated.

Tips

- Some credit issuers accept post-dated cheques. In this case, send your payment as soon as you get your credit card statement.
- If you don't use a post-dated cheque, send your payment well in advance of the due date on your statement.
- Make sure your account contains enough money to cover the cheque. If the cheque is returned because of non-sufficient funds (NSF), you'll be charged interest on the amount you owe until you pay it in full. You may also be charged NSF fees by the card issuer and your financial institution.

Option 2: Visiting a Teller at a Financial Institution

If you pay **by cash, by a withdrawal** from your account or by **cheque** the teller will stamp the payment date on your statement and stub (the tear-off portion of your statement). You're considered to have made your bill payment on that date. Payments made during extended banking hours (on a weekend or after approximately 3 p.m.) will be **considered as having been made the next business day**.

Tips

- Before you visit a teller, make sure you know which financial institutions will accept your bill payment. Ask your credit card issuer or refer to your statement.
- If you pay by cheque, make sure your account contains enough money to cover it. If the cheque is returned because of non-sufficient funds (NSF), you'll be charged interest on the amount you owe until you pay it in full. You may also be charged NSF fees by the card issuer and your financial institution.

Option 3: Using an Automated Banking Machine (ABM)

If you do not have **to deposit the stub** (your bill payments automatically appear on the screen) you will be considered to have made your payment **on that day**, provided you made the payment before 3:00 p.m. If you are **paying after hours** (on a weekend, holiday or after 3:00 p.m.), your credit card payment **will be considered as having been paid the next business day**.

If you are **depositing the stub** in an envelope, you are considered to have made your payment **the next business day**. This is because branch staff need time to empty the ABMs and verify the contents of the envelopes.

Option 4: Using Telephone or Internet Banking

If you make a payment during business hours (before 3 p.m.), **you are considered to have made your bill payment on that date.** If you are **paying after hours** (on a weekend, holiday or after 3:00 p.m.) your credit card payment **will be considered as having been paid on the next business day.**

Option 5: Using a Pre-Authorized Payment Agreement

To pay your credit card bill using this method, you must sign a **pre-authorized payment agreement** authorizing the credit card issuer to withdraw the money directly from your bank account. The agreement outlines the terms and conditions related to withdrawals from your account. Among other things, the agreement indicates:

- the amount to be withdrawn each month, and whether this is a fixed amount or if it will vary depending on your credit card balance (the total balance you owe, or just the minimum payment required);
- the date on which the amount will be taken from your account.

Your bill payment **will be made on the due date** indicated on your statement, because the credit card issuer will withdraw the funds directly from your bank account on that day.

Tips

- Keep track of your payments to ensure you have enough money in your account to cover all of your withdrawals. If your pre-authorized debit payment is returned for non-sufficient funds (NSF), you will be charged interest on the amount you owe until you pay in full. You may also be charged NSF fees by the credit card issuer and your financial institution.
- If you decide to cancel your pre-authorized payment agreement, you must send a written notice of this to the credit issuer. Keep a copy for your files.

How to Use Up a Credit Balance

If your credit card bill payment is larger than your outstanding balance, you'll end up with a credit balance in your credit card account. This can happen if:

- you were not sure of how much you owed (for example, if you lost your statement or were on vacation when your statement arrived) and paid more to cover the balance, or
- you returned a purchase after the statement date, and didn't use up the money refunded by making other purchases.

Some card issuers will send you a cheque if the balance has been sitting in your account for a certain period of time. Other issuers may offer this service if you ask for it, but you may be charged a fee.

If you don't receive a cheque, you are best to use up this credit balance by making essential purchases on your credit card, such as groceries or gas.

Or, you can make a cash withdrawal from an automated banking machine (ABM). However, doing this may cost more than you think. This is because your transaction will be considered a cash advance, and the following charges could apply:

- a transaction fee of up to 4 per cent of the amount advanced, depending on the credit card issuer (*for more details, see the **Service Fees** comparison tables included in this kit*);
- interest charges on this cash advance, from the day you make the transaction until you pay the amount in full.

The following example shows you how this works.

*Example: Withdrawing Your Credit Balance
by Taking a Cash Advance*

Statement Date	Details
Apr. 30	Natalie's April credit card statement shows that she has a \$500 credit.
May 5	Natalie decides to go to an ABM to withdraw the \$500.
May 31	<p>Natalie's May statement shows the following charges:</p> <ul style="list-style-type: none">\$ 500.00 cash advance (May 5)+\$ 5.00 cash advance fee+\$ 6.59¹ interest on the \$500 cash advance-\$ 500.00 CR (credit balance)=\$ 11.59 <p>Natalie now owes \$11.59 because she used a cash advance to draw against a credit balance on her account.</p>

¹ 18.5 per cent annual interest rate, calculated over 26 days (May 5 to May 31)



Will You Earn Interest on a Credit Balance?

You don't usually earn interest on a credit balance. And, if you leave your credit balance sitting in your account for an extended period of time, you may be charged an "inactive account" fee. *For more details, see the **Service Fees** comparison tables included in this kit.*

Money-saving Tips for Using Up a Credit Balance

- Know what fees apply to your credit card, especially fees for cash advance transactions and inactive accounts. Read your credit card agreement carefully or see the ***Service Fees*** comparison tables included in this kit.
- Instead of taking a cash advance against a credit card balance, use the credit up by making essential purchases such as groceries or gas.



How You Can Reach Us

*Financial Consumer Agency of Canada
427 Laurier Ave. West
6th Floor, Enterprise Building
Ottawa Ontario K1R 1B9*

*Telephone (toll-free): 1-866-461-3222
Fax (toll-free): 1-866-814-2224
Web site: www.fcac-acfc.gc.ca*

E-mail:

*General inquiries: info@fcac-acfc.gc.ca
Publications: pub@fcac-acfc.gc.ca*