

FLY WITH THE WIND!

Engaging Inuit Youth in the Canadian Economy

Credit Cards The Good, the Bad, and the Ugly

Credit card use has expanded greatly over the last decade or two. Today, credit cards are used by many people to purchase items, gain quick access to cash, pay bills and earn reward points. There are lots of benefits to using credit cards. Even having one but not using it can be beneficial, as it helps build up your credit rating. Credit rating is a term used to describe how good your financial reputation is.

One of the advantages of having a credit card is being able to buy something when you might not actually have the money on hand. You may need a new coat, but don't have the money in your bank account for the amount at that time. By paying with your credit card, you are borrowing that money for a period of time. You get the coat, the store gets paid and everything's great right now. But the company that gave you the card will expect you to pay them back, plus interest. They will start charging interest on the amount you owe if you don't pay the total amount back by a certain date (the due date).

Usually you can wait a few weeks after the purchase to repay before the interest is charged.

Interest Rates

People can get into trouble when they buy too many things on their credit card and don't have enough money to pay it off before the interest charges start piling up. Some cards, such as those from stores, can charge up to 29% interest which is very, very high. These charges can add up very quickly and get people into trouble as they can't afford to pay off their cards.

The following example shows the impact of a credit card with a 20% interest rate.

Susie Inuk got a new credit card. She went out at Christmas time and spent \$2,000 on presents for her family and friends. She found that after Christmas, she couldn't pay very much off her credit card and got behind on her payments.

The month after Christmas, Susie had to make a minimum payment of \$60 on her total balance of \$2,000. She was only able to make the minimum payment. The interest on her balance of \$2,000 for that month was \$33. Of her \$60 payment, only \$27 went to pay off the actual cost of what she bought. After her monthly minimum payment, her credit card balance was at \$1,973, not \$1,940.

Credit card interest charges continue until the entire balance is paid off. This is how credit card companies make a profit. If Susie makes no more charges on her credit card, and continues to pay only the minimum monthly payment required, it will take her over 15 years to pay it all off. With all of the interest charges, she will have paid more than \$4,000, or twice what she originally spent on Christmas gifts.

This example shows you how credit cards have to be used carefully. If you aren't careful about paying off the card every month, you can get trapped by high interest rates that force you to pay much more than the value of the items you purchased.

Credit cards can be great tools if used responsibly. You can purchase things online, make hotel and airplane reservations, take out emergency cash and a whole bunch of other useful things.



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Be careful about what you purchase

If you haven't had a credit card before and decide you really need one, try getting a card with a low limit (\$500) on it. This way, if you do have trouble paying the card off every month, you won't end up with such a big problem. If you find it tough to handle that much credit, consider leaving the card at home, cutting it up and/or using other forms of payment, such as a debit card or even good old-fashioned cash.

Other Facts

- There are many different credit cards available today, each one offering slightly different benefits and interest rates. There are cards available that offer very low interest rates but don't have a lot of other benefits. This might be a good place to start if you haven't got a lot of experience with credit cards.
- When considering a card, or if you have one already, check out a few key aspects of the card:
 - What is the annual interest percentage rate charged on balances? There are low interest cards available – ask for one.
 - Are there additional fees or charges for late payments, over-limit charges or annual rates? Find out before you apply.

- What is the amount you can charge on the card (credit limit)? You might not need a limit of \$5,000 and if you get one with such a high limit, it can easily lead you into trouble if you can't pay it back. Find out which cards have low and high interest rates.
- How long is the period between when you charge something on the card (right after the last due date) until when the next payment is due (the grace period)? It should be around 21 days, but find out for sure. For example, a MasterCard with Bank of Montreal (BMO) has an interest rate of 20%. Visa Classic has a low rate of 11.99% and is available through several banks. (If you want to avoid high interest rate costs, this is a great choice.) A TD Green Visa card has an interest rate of 22% with no annual fee.
- Don't forget to ask about other benefits offered by the credit card company. Some cards can provide travel insurance, reward points for future travel, cheaper rates on car rentals, or can even give you cash back based on how much you put on the card.
- You can keep track of your credit card online and may be able to have notices sent to you letting you know when a payment is due.



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