



Financial Consumer  
Agency of Canada

Agence de la consommation  
en matière financière du Canada

CREDIT CARDS AND YOU SERIES

# CREDIT CARDS: UNDERSTANDING YOUR RIGHTS AND YOUR RESPONSIBILITIES



Financial Consumer  
Agency of Canada

IT PAYS TO KNOW.

Canada 

## 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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# OVERVIEW

Credit cards can be very convenient, but it's important to keep in mind that when you apply for a credit card, you are entering into a contract. Like any contract, it is legally binding and gives each party certain rights and responsibilities.

There are rules that federally regulated financial institutions have to follow to make it easier for you to understand the terms of your credit card contract. This publication will give you a brief overview of some of those rules.

**Note:** In this publication, the term “credit card issuer” refers to a federally regulated financial institution.

## 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](http://www.osfi-bsif.gc.ca), and click on “Who We Regulate”.

# YOUR RIGHT TO INFORMATION

## When you apply for a credit card

Any time you receive a credit card application from a credit card issuer, you have the right to certain information. Key features of the card agreement, such as the card's interest rates, fees and other charges, must be clearly set out in an information box at the beginning of either the application or a related document that you receive at the same time.

When you apply for a credit card, you agree to accept all of the terms and conditions, including interest rates and fees. Read the entire application carefully before submitting it.

## When you get your credit card

When your credit card arrives, it must have a credit card agreement or contract with it. You should read the agreement carefully to understand your responsibilities and the terms and conditions of using the card. Keep the agreement for your records. If there is something you do not understand, contact your credit card issuer.

Similar to the credit card application, your credit card agreement also has to have an information box that clearly outlines key information. This information box may be at the beginning of either the agreement or a related document that you receive at the same time.

See an example of an information box on page 6.

## With your monthly credit card statement

Once you have your credit card, your issuer has to send you a statement every month that includes the following information:

- your outstanding balance (you have to pay this amount in full by the due date to benefit from the interest-free grace period on new purchases);
- an estimate of the length of time it would take to pay off the balance in full if you paid only the minimum amount required each month;
- a description of each transaction made during the period covered by the statement, and the amount charged, including interest;
- the date each transaction was posted to your account;
- the amount credited or charged during that month for each of the following:
  - purchases made,
  - cash advances received,
  - payments made,
  - interest charged, and
  - non-interest fees charged.

### Exceptions:

**Your credit card issuer does not have to send you a monthly statement if:**

- there is no outstanding balance at the end of the period, or
- you have defaulted on your payments and the issuer has notified you that the credit agreement has been suspended or cancelled.

**Also, your credit card issuer can send you a statement only every three months if the following three conditions are met:**

- there have been no charges or payments,
- the outstanding balance is less than \$10, and
- no fee or interest is being charged or accumulated.

## When your credit agreement changes

If your credit card issuer changes any features or any of the terms or conditions of your credit card, **the issuer has to give you the details of these changes in writing at least 30 days before the changes go into effect.**

Your credit card issuer also has to get your permission before raising your credit limit. If you agree verbally to an increase, your credit card issuer has to confirm the change in writing no later than your next credit card statement.

### Exceptions:

There are some changes to the terms and conditions of your credit card for which advance notice is not required. However, the changes have to be disclosed to you in the next statement you receive after the change is made. These changes are:

- an extension of your grace period,
- a decrease in the interest rate,
- a decrease in a charge that is not related to the interest rate,
- a decrease in your credit limit,
- a change to any optional service you accepted,
- if you have a card with a variable interest rate, the change in the benchmark rate or base rate to which it is linked (also known as the reference rate).

## Example: information box for a credit card agreement

(Note: Details shown in this example, such as interest rates, will vary by credit card.)

<b>Initial credit limit</b>	<b>\$5,000</b>
<b>Annual interest rate or rates</b>	<p>These interest rates are in effect the day your account is activated.</p> <p>Promotional rate on purchases: <b>4.99%</b> for your first three monthly statements</p> <p>Purchases: <b>19.75%</b> following the promotional period</p> <p>Cash advances: <b>21.5%</b></p> <p>Balance transfers: <b>21.5%</b></p> <p>Your interest rate will increase to <b>24.75%</b> on your next statement if you:</p> <ul style="list-style-type: none"><li>• make a late payment</li><li>• go over your credit limit</li><li>• make a payment that is returned</li><li>• fail to meet any of the terms in the cardholder agreement.</li></ul>
<b>Interest-free grace period</b>	<p><b>21 days</b></p> <p>When you use the card to make purchases, you will benefit from an interest-free grace period of at least 21 days if you pay off your balance in full by the due date.</p> <p>There is no interest-free period on cash advances or balance transfers.</p>
<b>Determination of interest</b>	<p>If interest is charged, it is calculated on your daily average balance and charged monthly to your account on the last day of your billing cycle.</p>
<b>Minimum payment</b>	<p><b>2% or \$10</b></p> <p>Your minimum payment will be the greater of <b>2%</b> of the outstanding balance owing as shown on your monthly statement, or <b>\$10</b>.</p>



<p><b>Foreign currency conversion</b></p>	<p><b>2%</b></p> <p>We will bill you in Canadian currency if you use your credit card account to make transactions in foreign currency. We will convert the amount directly to Canadian dollars at the exchange rate in effect at the time we post the transaction to your credit card account.</p> <p>When the transaction is posted to your account, in addition to the exchange rate, you will be charged a foreign currency conversion rate of <b>2%</b> for each foreign currency transaction.</p>
<p><b>Annual fee</b></p>	<p><b>\$50</b></p> <p>To be charged on your first statement and annually on the anniversary date of your first statement.</p>
<p><b>Other fees</b></p>	<p>To be charged on the day the transaction occurs:</p> <ul style="list-style-type: none"> <li>Cash advance: <b>\$5</b></li> <li>Over the credit limit: <b>\$20</b></li> <li>Balance transfer: <b>1%</b> of the amount transferred</li> <li>Extra copy of your monthly statement: <b>\$2</b></li> </ul>

# UNDERSTANDING YOUR CREDIT CARD PAYMENT TERMS

## Interest-free grace period

You can benefit from an interest-free period, also known as the grace period, when you make purchases with your credit card. **To do so, you must pay the balance in full by the current month's due date.** The grace period on new purchases officially starts on the last date that is included in your monthly billing period.

The grace period on new purchases must be a minimum of 21 days as long as you pay the full balance by the current month's deadline. The 21-day grace period on new purchases applies even if an outstanding balance has been carried forward from the previous month.

**The interest-free period does not apply to balance transfers or cash advances. With these transactions, interest is charged right away.**

### EXAMPLE:

Rajiv made a new purchase on May 5. His statement covers transactions he made between May 1 and May 31.

His statement shows the due date for his payment as June 21. This means that he will have a 21-day grace period from the last date included in the statement (May 31), provided that he pays the balance in full by June 21.

## Avoiding interest charges

**You will never have to pay any interest if:**

1. you always pay the full amount owing on your credit card by the payment due date;

**AND**

2. you don't use your credit card to take cash advances or make cash-like transactions, such as a wire transfer or money order.

## How interest charges are calculated

If you don't pay the amount owing on your credit card in full by the due date, you will pay interest, which increases the cost of everything you have charged to your card.

Transaction type	How interest is calculated
<b>New purchases</b> <i>(purchases that appear on your monthly statement for the first time)</i>	You are not charged interest on the first monthly statement.
<b>Previous Purchases</b> <i>(purchases that were listed on a previous statement where the full amount owing was not paid by the due date)</i>	You are charged interest back to the date you made these purchases <b>until you make a payment that covers the full amount of these purchases.</b>
<b>Cash advances, balance transfers and 'cash-like' transactions</b>	You are charged interest from the date you made the cash advance or balance transfer until the date you repay the total amount in full.  You don't benefit from an interest-free period on these transactions.

## Minimum monthly payments

The minimum monthly payment is the minimum amount you have to pay for a given month if you are carrying a balance on your credit card.

If you don't pay the minimum amount by the due date, your credit score could be lowered. The lower score could reduce your chances of getting a loan in the future.

Your credit agreement will tell you how your minimum payment is calculated. A common method is either a flat dollar amount (usually \$10) or a percentage of your outstanding balance, whichever is greater.

**Keep in mind that paying only the minimum amount you owe is very costly because interest will continue to grow.**

## EXAMPLE:

Amy has an outstanding balance of \$2,000.00 on a credit card with an 18% interest rate. Her minimum payment is \$10.00 or 2% of the balance, whichever is greater. Amy's minimum payment would initially be \$40.00 (2% of \$2,000).

- If Amy makes only the minimum monthly payment of \$40.00 each month, it would take her **30 years and 10 months** to pay off her balance in full AND she would end up paying **\$4,931.11 in interest**.
- If Amy were to increase her monthly payment to \$100.00, she would take only **two years** to pay off the balance in full and she would pay **\$395.65 in interest**.

This example illustrates how expensive it can be to pay only the monthly minimum amount. Increasing the monthly payment by even a small amount can drastically shorten the length of time it will take you to pay off a credit card balance.

## How payments are applied to your balance

If you do not pay off your balance in full, it's important to understand how your credit card issuer will apply your payment against your balance. Federally regulated financial institutions, such as banks, must follow certain rules when applying your payment to your account.

Keep in mind that the credit card issuer can charge different interest rates for different types of transactions. For example, for purchases, your interest rate could be 18%, but for cash advances and balance transfers, it might be 21%. Check your credit card agreement or disclosure statement, because these interest rates must be outlined in the agreement or statement. If they are not, contact FCAC to review your agreement.

Credit card issuers can apply the **minimum payment** any way they want. However, if you pay more than the minimum amount, your credit card issuer has to apply the amount over the minimum payment in one of two ways:

1. to the part of your balance with the highest interest rate, and then in descending order to the rest of your balance (next highest interest rate to lowest), or
2. proportionally to all interest rate categories of the balance.

Visit FCAC's website at [fcac.gc.ca](http://fcac.gc.ca) and try the *Credit Card Payment Calculator* to see how increasing your payment will help you be debt-free sooner.

**EXAMPLE:**

Let's say you are carrying a \$2,000 balance that includes \$1,500.00 of purchases and \$500.00 of cash advances. If you make a payment of \$700.00 in addition to the minimum payment, your payment could be applied as follows:

**Method one: highest interest rate to the lowest**

Type of transaction	Interest rate	Portion of balance	Amount applied to each transaction type
Cash advances	21%	\$500.00	\$500.00
Purchases	18%	\$1,500.00	\$200.00

Using method one, your \$700.00 payment (over the minimum payment required) would pay off all of the cash advances, which have a higher interest rate. The remaining portion of the payment (\$200.00) would be applied to the portion of the balance with the lower interest rate (purchases).

**Method two: payment applied proportionally**

Type of transaction	Interest rate	Portion of balance	Amount applied to each transaction type
Cash advances	21%	\$500.00 (25%)	\$175.00 (25% of payment)
Purchases	18%	\$1,500.00 (75%)	\$525.00 (75% of payment)

Using method two, 25% of your payment (\$175.00) would be applied to the cash advances, because cash advances account for only 25% of the balance. The other 75% of your payment (\$525.00) would go toward the purchases, because they account for 75% of the balance. This means that you will continue to pay interest on \$325.00 of cash advances at the higher interest rate.

## What happens if you make a late payment?

It's important to pay your credit card bill on time. 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.**

Late payments could also result in:

- penalties, such as an increase in your interest rate,
- damage to your credit score, and
- your card being cancelled by your issuer.

## If you want to cancel your card

To cancel a credit card account, you must contact your credit card issuer. Simply cutting the card or not using it will **not** automatically cancel the credit card account.

Visit [fcac.gc.ca](http://fcac.gc.ca) and read the FAQ *How do I cancel a credit card account?* for more information.

# JOINT OR SHARED CARDS: UNDERSTANDING YOUR LIABILITY

## When are you considered joint borrowers?

If you co-signed for a credit card with another person (or a group of people), you are considered joint borrowers. The lender must give all of you copies of the credit agreement and the monthly statements, unless you consent either verbally or in writing (on paper or electronically) to waive this right.

With monthly statements, you can keep track of the status of the account – for example, whether the other borrower is making payments or if the terms and conditions have changed. Receiving regular statements also allows joint borrowers to understand what they are responsible for.

## Who is liable?

Anyone who signs the application form can be liable for any outstanding balance. This applies whether or not you incurred the total debt.

For some credit cards, the terms may state that authorized users (secondary cardholders) can also be held responsible for any outstanding balances, even if they don't sign the credit card application. Read the credit agreement carefully and make sure that you fully understand who is responsible. If you aren't sure, ask the lender.

If the credit card issuer considers...	that means...
<b>all card users</b> responsible as joint borrowers (sometimes called <i>authorized users</i> or <i>secondary cardholders</i> )	<ul style="list-style-type: none"><li>– each user can be held fully responsible for any outstanding balances</li><li>– each user has the right to receive the credit card agreement and monthly statements.</li></ul>
only <b>the primary cardholder</b> responsible	<ul style="list-style-type: none"><li>– the primary cardholder is responsible for all outstanding balances</li><li>– only the primary cardholder has to receive information about the credit card account.</li></ul>

## UNAUTHORIZED TRANSACTIONS: WHAT TO DO IF YOU HAVE A PROBLEM

If you find unauthorized transactions on your credit card account, follow these steps to find out whether you can be reimbursed:

1. Contact your credit card issuer immediately and report the unauthorized transactions. Also inform your local police.
2. Check your credit card agreement. By law, your agreement must explain your maximum liability in the case of lost or stolen credit cards, or the unauthorized use of your credit card account number.

Visa, MasterCard and American Express have **zero-liability policies**, so that if your credit card is lost or stolen, or if someone uses your credit card number to make transactions you didn't authorize, you can usually be reimbursed. FCAC monitors these commitments, so if you're having difficulty, contact FCAC and we will review the complaint.

The zero-liability policy applies to transactions made on the Internet, by phone or at retailers. However, it may exclude transactions made using a PIN (personal identification number) – for example, a cash advance made with your card at an automated banking machine. It may also exclude transactions made with convenience cheques, or transactions made on corporate credit cards.

Contact your credit card issuer to find out its policy on unauthorized transactions and how you can be protected. This type of policy is not usually listed in a credit card agreement, since it is a public commitment and not a legal requirement.

## If you have a complaint

Federal financial consumer protection legislation requires all federally regulated financial institutions to have a complaint-handling process in place to help resolve disputes between consumers and their financial institutions.

If you feel that your federally regulated financial institution did not provide the required information to you or charged you a fee incorrectly, then you should make use of your financial institution's complaint-handling process and contact FCAC. FCAC can investigate your complaint to determine whether your financial institution has complied with its legal commitments.

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

## The role of FCAC

Federally regulated financial institutions have certain legal obligations to consumers, including some related to credit cards as described in this publication. Any consumer can file a complaint with FCAC, and there's no cost involved. Call us toll-free at **1-866-461-3222** or send us a message at **info@fcac.gc.ca**.



# 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](http://fcac.gc.ca):

## Publications

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

## Tip sheets

- Be Smart with Your Credit Card: 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

## Notes

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