In two months, Nick will start university. To help facilitate his expenses while away at school, his father had recommended that he visit his FPSC Level 1 Certified in Financial Planning to learn about credit card options and how to set one up.

Knowledge Expectations – Credit Card

The FPSC Level 1 Certificant in Financial Planning and CRP Professional should be able to:

• Explain to Nick that a credit card is a preferable way for him to make purchases safely rather than carry large amounts of cash to do so. Using a credit card will also help him build a credit rating, track his spending and enable him to defer payments for a grace period up until the payment due date. Nick can also use his credit card to earn rewards for the amount he charges to the card.

• Explain to Nick the importance of paying off his credit card balance in full each month. If he pays the balance of the card on time, he will be charged no interest as part of his payment. However, if he pays the credit card company late, misses a payment, or takes a cash advance from the card, he will be responsible for paying interest in addition to the principal he borrowed.

• Explain to Nick that, if he misses a payment, pays the amount owing late, or pays a lower amount than the total balance, interest owing will be accrued on the purchases made from the day he made the purchase. This means that, if Nick owes $500 and he pays $499, interest is payable on the entire $500 balance from the time the purchases were made until the amount owing on the card, including interest, is paid in full.

• Explain to Nick that payments made to pay off the amounts owed on a credit card will be used to pay off the interest first, rather than principal.

• Explain to Nick that interest rates for purchases on credit cards tend to be higher than on other forms of borrowing, such as loans or lines of credit. In addition, if a payment is missed, many credit card companies will increase the rate of interest that customers are charged to compensate them for the higher risk of non-payment.

• Explain to Nick that interest begins accruing immediately when a cash advance is taken using the credit card. Additional service fees may also be charged when using the card to obtain cash.