



Building Credit

What you need to know as a
newcomer in Canada



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Introduction



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Agenda

01. Credit – How do credit cards work?

02. Interest – How it works and how it is calculated

03. Building your credit history as a newcomer

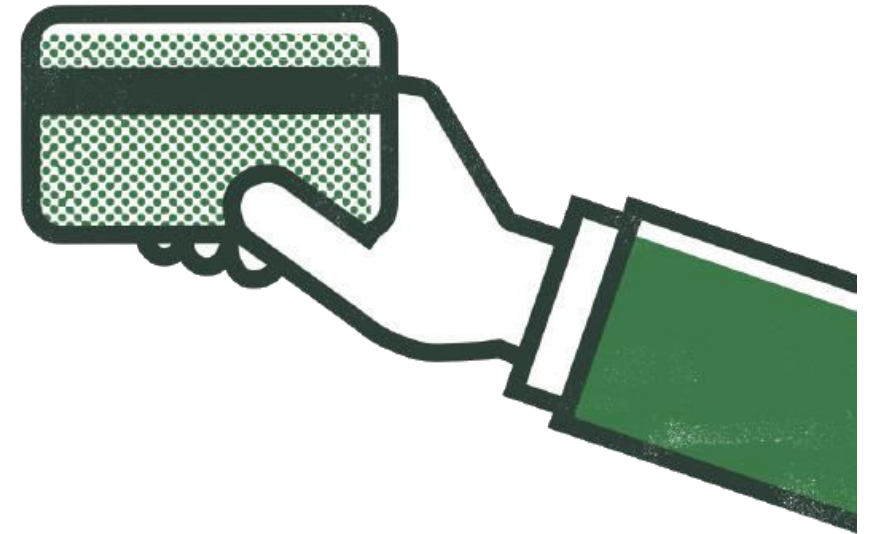
04. Credit Score – How is it calculated?

05. Understanding the differences between a secured vs. unsecured credit card

06. Understanding other credit card fees and if credit cards are right for you



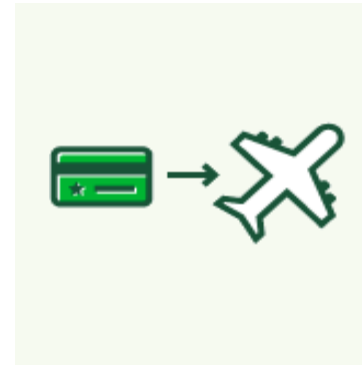
Credit



How do credit cards work?



1. A credit card is like a **short-term loan**. You use it as if you're borrowing money, then you pay the money back.
2. Credit cards have a **credit limit** that is the maximum amount you may spend on your credit card. *(Note: Credit card issuers set your limit when you first get your card)*
3. If you do not pay off your balance each month, you will be charged **interest** on the outstanding balance that has not been paid off in full.
4. Credit cards can earn you rewards, offer you exclusive discounts, and protect you from unauthorized transactions made on the card. *(Note: An annual fee may be required for certain credit cards which offer rewards / points)*
5. Credit cards can also give you access to the purchase security extended warranty protection, turn big purchases into manageable payments, and **build your credit history in Canada.**



Is a credit card right for you?

**There are many benefits to having a credit card.
You might consider one if:**

- You live within your means
- You have a regular income
- You don't have spending problems
- You can make and follow a budget

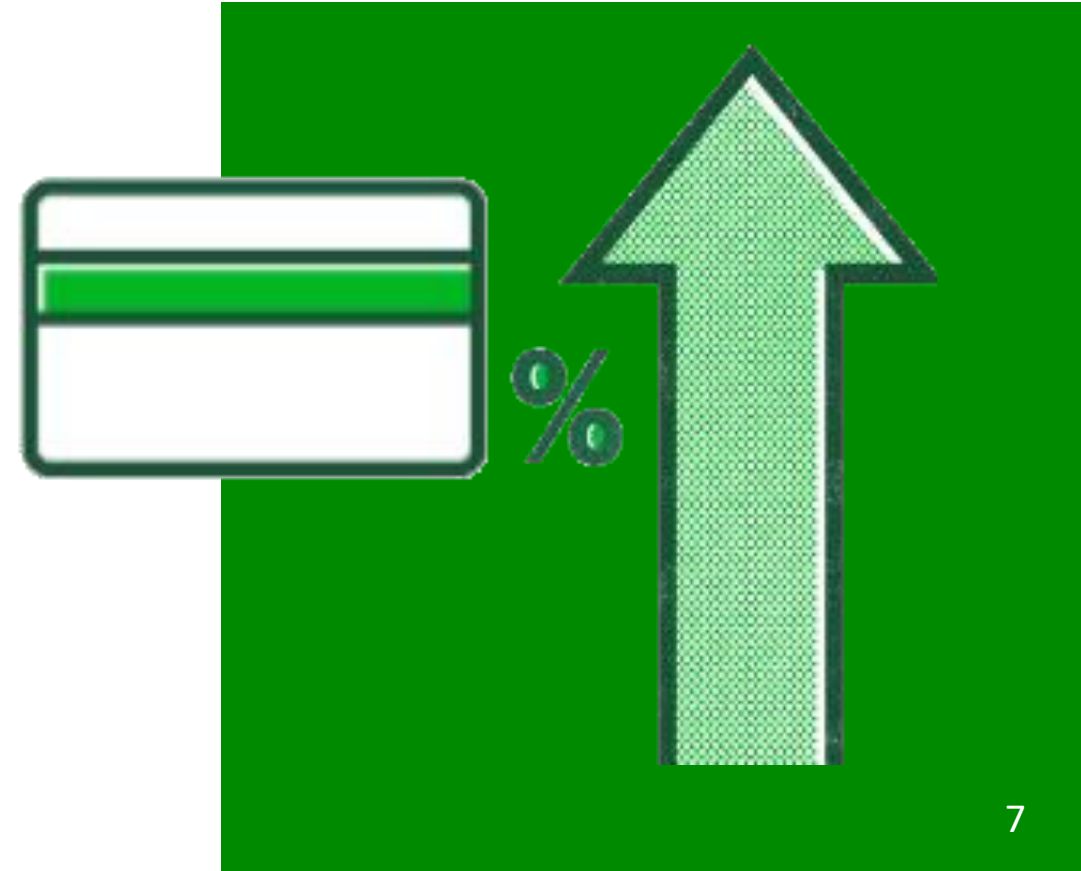


How does interest work?

If you don't pay off your credit card balance in full by the due date, you will continue to pay interest until you pay your balance back in full.

Interest rates vary depending on your financial institution, type of transaction, type of credit card as well as the province that you live in. For example, you may pay 13%-22% interest on regular purchases and 25-28% on cash advances.

You have a minimum 21-day interest-free grace period for new purchases and fees (other than cash advance or balance transfer fees) that appear for the first time on the account statement ("New Purchases").



How interest is calculated



Let's assume your balance is \$1,000 and your credit card has a 20 % annual interest rate.



Calculate your daily interest rate

Annual Interest Rate / days in the year $.20/365 = .00055$

Calculate your daily interest charge

Daily interest rate x average daily balance $.00055 \times 1,000 = \$.55$

Calculate your interest charge for the month

Daily interest charge x days in the billing cycle (30) $\$.55 \times 30 \text{ days} = \16.43

How long will it take for me to pay off my credit card if I only make the minimum payments?

Credit card balance of \$1,000 with an annual interest rate of 20.0%

- Original balance: \$1,000
- Minimum payment: \$30 / month
- Interest paid: \$990.60
- Total paid: \$1,990.60
- Time it will take to pay off the credit card: **10 years and 11 months**

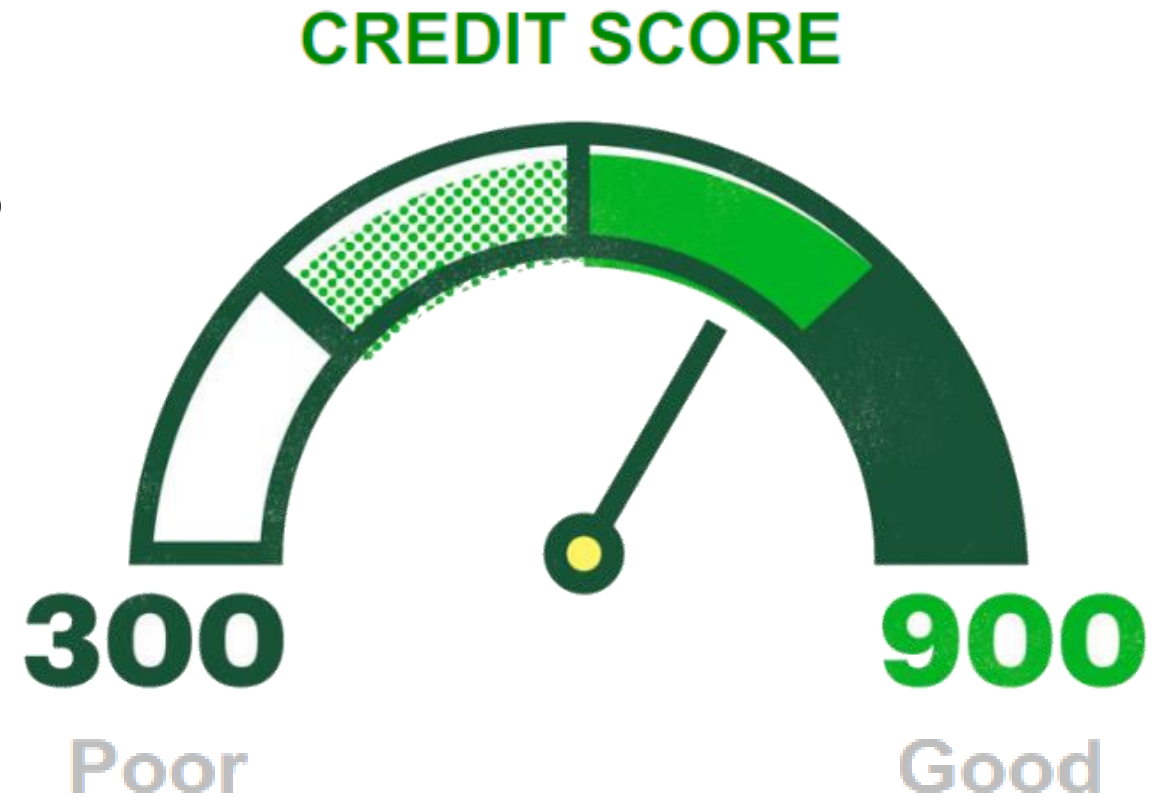
Building your credit history as a Newcomer to Canada



Your credit score is a three-digit number that is assigned to you. Your credit score is an assessment of your ability to fulfill the financial commitment of borrowing credit at a particular time based on your financial history as reported to the credit bureau.

A higher credit score means you can potentially get better credit terms.

One of the things that can build your credit history and improve your credit score is by repaying your credit card bill on time on a monthly basis.



How is your credit score calculated?



Credit scores are based on how well (or not) you've managed a variety of financial factors, including the following:

- Payment history
- Amount of debt
- Length of your credit history
- Credit utilization
- Number of inquiries into your credit file
- Public records (i.e., history of bankruptcy, collection issues etc.)



What is the difference between a secured and unsecured credit card?

Comparison	Secured Credit Card	Unsecured Credit Card
Credit limit	✓	✓
Incur interest charges	✓	✓
Security deposit required	✓	✗
Opportunity to earn rewards	✓	✓

- A secured card is nearly identical to an unsecured card.
- The main difference between a secured and unsecured card is that a *secured* credit card is a credit card where the credit limit is secured by depositing money with the bank, and the credit limit granted is equal to the amount of cash deposited. A secured credit card can help you build your Canadian credit history and credit rating in a positive way.

Other credit card fees



Annual Interest Rate isn't the only credit card fee you might have to pay; here are a few examples.



Annual fees:

On certain credit cards, you have to pay a fee every year to reap the benefits of the rewards / points that some cards have to offer.

Cash advance fee:

A fee that you may pay each time you get a cash advance.

Overlimit fees:

When the balance on your credit card is over the credit limit, you may have to pay an over-the-limit-fee.

Foreign exchange fee:

When you use your credit card outside of Canada, your financial institution may apply:

- An exchange rate for the purchase (1.45 to convert EUR to CAD)
- A foreign currency conversion charge (i.e. 2.5%)

Note: Annual interest rates, fees and features are subject to change and can vary depending on the province that you live in.

Are credit cards a good idea?



If you think you can handle the responsibility and use them properly, credit cards are helpful. They can:

- Build your credit history
- Earn rewards and cash back (Note: depending on the type of credit card you have)
- Can set up pre-authorized payments
- Enables payments where credit cards are the only form of accepted payment of security
- Can be a useful tool for managing cash flow when needed



Questions?

We are ready for **YOU!**