



## What Is a Foreign Transaction Fee?

### Description

A foreign transaction fee is basically the cost of processing a transaction in anything that's not the Canadian dollar. While not all credit cards come with a foreign transaction fee, those that do will charge a percentage of the purchase (usually 1% to 3%) for every foreign transaction that you make.

How does this pesky little fee work, and how can you prevent yourself from paying it? Let's take a closer look and see.

### What is a foreign transaction fee?

A foreign transaction fee is a fee that's charged to your account when you make a purchase in a foreign currency (if your card charges the fee). Yes, *any* purchase from a foreign vendor could trigger the fee. So, if you're buying shoes online from a U.S. vendor, you might pay the fee, even if you're shopping from your home in, say, Vancouver.

### How much is the fee?

In Canada, the average foreign transaction fee hovers around 2.5%, though, undoubtedly, you could pay more (or less) than that. For perspective: with a card that has a 2.5% foreign transaction fee, you'll pay \$2.50 for every \$100 you spend and \$25 for every \$1,000 you spend.

Spending \$2.50 may not seem like a lot. And that's partly why these fees can become such an expensive nuisance. When you're traveling, you could easily lose track of how much you're paying in transaction fees. Spend \$10,000 on a single trip — which, unless you're backpacking through Southeast Asia, isn't totally unrealistic — and you'll spend \$250. To be clear: you just spent \$250 on a fee that *lets* you spend money. Nothing can feel more like a waste of money than that.

## Is the foreign transaction fee the same as a currency conversion fee?

No. And you may often be charged both at the same time.

The currency conversion fee is the charge for actually converting money from one currency to another. That is, if you're travelling in Iceland and want to buy a parka for 5,000 króna, the currency conversion fee is the fee that's charged for changing those króna to Canadian Dollars. If you pay in the foreign currency (króna in this case) and your credit card does the conversion for you, it'll be either Visa or [Mastercard](#) doing the conversion and charging the conversion fee. This is almost always the lowest-cost currency conversion fee and is around 1%.

Where it gets tricky is that when that Icelandic salesperson is ringing you up, they may ask, "Would you like to pay in króna or Canadian Dollars?" It may sound like a nice offer to pay in Canadian Dollars, but it's usually best to reply, "Thanks, but no thanks." If you choose to pay in Canadian Dollars, it won't be Visa or Mastercard performing the conversion and charging a 1% fee. Instead it will be the payment processor for the shop's point-of-sale system that does the conversion, typically at a much *much* higher cost. Worse still, the cost of this currency conversion fee won't be clear, instead, it'll just show up as part of the final conversion that the salesperson shows to you.

So where's the foreign transaction fee in all of this? That's something charged by your bank *on top of* the currency conversion fee. Keeping with the example, if you pay for your parka in króna on your credit card, you'll be charged around 1% by Visa or Mastercard for the currency conversion, then you'll additionally be charged the foreign transaction fee by your bank. That means that if your card has a 2.5% foreign transaction fee, you're paying 3.5% in total.

It's worth noting that if you do say "yes" to paying at point-of-sale in Canadian Dollars, you may not have to pay your card's foreign transaction fee. But that depends on the specifics of your card. Some banks will only charge a foreign transaction fee when you pay in a foreign currency. In this case, you wouldn't pay that extra fee if you pay in your home currency when abroad. However, many banks tag a purchase a "foreign transaction" if it's in a foreign currency or passes through a foreign bank. That means you may convert at the point-of-sale to home currency, pay an outrageous currency conversion fee, and then have to pay your bank's foreign transaction fee as well.

Here's the long and short of it when it comes to currency conversion and foreign transaction fees:

- When you're paying with your credit card abroad, pay in local currency rather than having the merchant convert to your home currency
- Travel with a credit card that does not charge a foreign transaction fee

Do both of these things, and you'll pay the low 1% for Visa or Mastercard to convert the currency and you won't pay any additional foreign transaction fees on top. And this is just about the cheapest way to spend when travelling abroad.

## How can you avoid paying foreign transaction fees?

The best way to avoid paying a foreign transaction fee is to use a credit card that doesn't charge the fee. That's right. Plenty of [great credit cards in Canada](#) will forego the fee when you make foreign transactions, whether in a foreign country or paying for shoes online from a non-Canadian retailer. If you skip the currency conversion, too, you can buy things from foreign vendors at essentially no extra cost.

Many [rewards cards](#) will offer "no foreign exchange fees" as a perk, along with travel insurance and certain airline privileges. Combine the "no foreign exchange fee" with the potential to earn [cash back](#) or miles, and you'll make extra money abroad, rather than spending it on unnecessary fees.

Alternatively, you could skip the credit card altogether and pay with local currency when you travel. Though it's worth remembering that using cash isn't costless either. When you convert Canadian Dollars to foreign currency, you pay a fee. That fee may be a specific fee that the bank or currency kiosk charges. In addition, there's almost always a cost that's baked into the conversion rate. That is, the conversion rate that you're given is, for example, 5% or even 10% worse than the spot exchange rate. If you're not quick with your maths, a currency conversion kiosk is an easy way to watch your travel funds drain.

Finding ways to convert Canadian Dollars to local currency while you're traveling can also be a hassle, especially if you want to search out the best exchange rates. Finally, with cash, if you lose it, it's gone. For liability purposes, then, you may not want to walk around with a wad of cash in your pocket.

On the other hand, credit cards typically have built-in fraud protection in case you lose it. You also are almost always getting a very attractive exchange rate when paying in foreign currency with a credit card (which is obviously even better when you're not paying a foreign transaction fee!). For those reasons, for many savvy travelers, the solution is a mix of some amount of local-currency cash — since not every vendor takes credit cards — and a credit card with no foreign transaction fees.

## Do debit cards charge foreign transaction fees?

Yes, they do. Debit cards charge a flat fee for foreign transactions in much the same way as credit cards. Like credit cards, you may be able to find some debit cards that don't charge the fee, though you'll probably still pay a fee for withdrawing cash from foreign ATMs (they always find a way to get you, don't they?).

## How do you know if your card has a foreign transaction fee?

If you're about to travel — and you don't want to "learn from experience" whether your card charges fees for foreign transactions — you can check your card's fee schedule in two ways.

The first is the information box on your credit card's terms and conditions pamphlet. Every credit card comes with one, and the foreign transaction fee will be listed as just one of the numerous boxes.

But let's be real — you probably recycled the information box along with the hundreds of credit card offers you got that year. In that case, you can login to your credit card account and find the “fees section” on your card. After you find it, just look for “foreign transaction fees,” and hopefully it says, “no fee.”

## Should you get a card with no foreign transaction fees?

The answer really depends on how much traveling (or online shopping with foreign vendors) you do.

For those who travel frequently, having a credit card with no foreign transaction fees (preferably one with [a lucrative rewards program](#), too) will benefit you immensely. For one, you won't have to worry about withdrawing loads of foreign currency from the ATM to avoid the fee. Carrying cash can be a major liability, especially if you're traveling in an area that's known for its pickpocketing.

Secondly, credit card issuers typically give better exchange rate than exchange kiosks at airports or in cities. As long as you don't convert the currency to Canadian dollars at the point-of-sale terminal, you could save a little extra by using your card instead of cash.

Even if you don't travel much, a card with no foreign transaction fees can help you with online purchases from foreign vendors. You're probably already paying more for shipping. Why pay an extra fee, too?

## The Foolish bottom line on foreign transaction fees

The foreign transaction fee is just a charge you pay in order to buy things from foreign vendors. It's a pesky little fee, but the good news is, you can find loads of great Canadian credit cards that don't charge the fee. If you don't want to pay money to spend money abroad, compare [rewards credit cards](#) and [cash-back cards](#). Because let's be honest — who *doesn't* want to earn some extra money in Rome or Buenos Aires?

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