

Credit Cards and You

December 2001

In this issue

- Bank of Canada rate changes 2
- The credit card decision 3
- What type of credit card is right for you? 3
- Credit card comparison tables 4-6
- Financial consumer's checklist 7
- Tips to help you save money 7

About the *Credit Cards and You* Report

The Financial Consumer Agency of Canada (FCAC) has assumed responsibility from Industry Canada for producing the quarterly credit card costs report, now entitled *Credit Cards and You*. The next report will be published in March 2002. Current and past issues are available by calling our Consumer Contact Centre at 1-866-461-3222 or by visiting our Web site at < www.fcac-acfc.gc.ca >.

This report is intended to provide user-friendly information related to credit card costs. Technical terms used in this report are included in a glossary of definitions for your ease of reference.

This report does not include an exhaustive list of all credit cards available in Canada nor does it advocate the use of specific credit cards. The figures in this report are accurate as of December 1, 2001 and are subject to change. Therefore, please contact your financial institution or retailer to verify that the information is up to date.

The FCAC welcomes any questions or comments you may have. For additional information, to provide comments or to obtain copies of this report, please contact us at:

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About the FCAC

The Financial Consumer Agency of Canada is a federal agency created by the *Financial Consumer Agency of Canada Act* to oversee federal consumer protection measures in the financial sector and to expand consumer education activities.

The FCAC does not regulate the pricing practices of financial institutions.

You can obtain additional information on the FCAC by calling our Consumer Contact Centre at 1-866-461-3222 or by visiting our Web site at < www.fcac-acfc.gc.ca >.

Bank of Canada Rate Changes and Credit Card Interest Rates

Since the last issue of this report – previously called *Credit Card Costs Report* and published by Industry Canada – the Bank of Canada has reduced the **Bank Rate**¹ four times, as indicated below. However, only one financial institution has

Bank of Canada Rate	
August 28, 2001	Decrease from 4.5% to 4.25%
September 17, 2001	Decrease from 4.25% to 3.75%
October 23, 2001	Decrease from 3.75% to 3%
November 27, 2001	Decrease from 3% to 2.5%

lowered its credit card interest rates. The current Bank Rate is 2.5%.

The next Bank of Canada Rate announcement is scheduled for Tuesday, January 15, 2002.

Since January 2001, Canada lowered its Bank Rate by 3.5%, while the United States reduced its key **federal funds rate**

by 4.5%, to the current 2%. The U.S. *Federal Reserve Statistical Release* on Consumer Credit, published on November 7, indicates that credit card interest rates for U.S. banks, on average, also fell 1.4% during the period January to August 2001.

In Canada, from 1980 to 1995, credit card interest rates generally moved up and down with the Bank Rate, with a time lag. However, this trend has not been evident in the past few years. Generally, the interest rates on standard cards have not moved along with the Bank Rate since 1995, and low-rate cards have not followed suit since 1999. Moreover, retail credit card rates have not changed in the last 18 years (see Chart 1 below).

Consequently, Canadians have witnessed a growing spread between the Bank of Canada’s benchmark rate and credit card rates. For standard credit cards, the average spread² between these two rates has been 10.19% since January 1980, 13.19% in the past five years and is currently at its highest level: 16.03%. The average interest rate spread² on low-rate credit cards is also at a high of 9.37%.

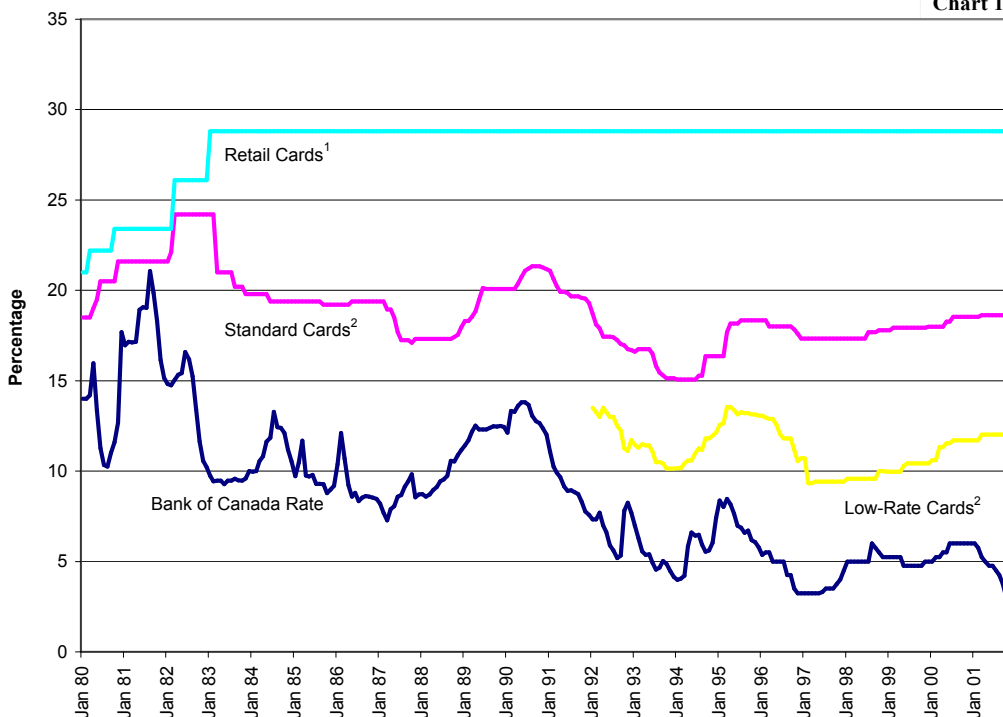
Financial institutions indicate that credit card interest rates are based on a variety of factors including the cost of funds, losses due to fraud, customer defaults and delinquencies, ongoing infrastructure costs for administering credit card programs and the risks associated with extending unsecured credit.

¹ See glossary for definition

² Based on the average of the six major banks (Bank of Montreal, Scotiabank, TD Bank, National Bank, CIBC and Royal Bank) for purchases

The Bank of Canada Rate and Credit Card Interest Rates

Chart 1



¹ Based on the average of the Sears card and the Hudson’s Bay card

² Based on the average of the six major banks (for purchases)

The Credit Card Decision: Shop Around!

Using credit to pay for purchases is a convenience. In general, credit cards let you make purchases up to a specific credit limit, for which you are billed later. They allow you to carry a balance from one billing cycle to the next. However, you have to pay a minimum amount on your balance each month, and any amount left unpaid is subject to interest charges, based on an annual percentage rate or APR.

While the credit limit amount and the APR are important, they should not be your only consideration when choosing a credit card. Depending on your personal use and financial situation, you may benefit from other features, such as a longer grace period or reward programs. **Be a wise consumer and shop around.** Use Table 1 as your guide to help you find a card that suits your needs.

You should know that financial institutions and retailers will most likely verify your personal credit history prior to issuing a credit card.

Potential Benefits of a Credit Card

- Helps you establish a credit history and earn a credit rating
- May be more convenient to carry than cash
- Free use of funds for a certain period of time
- Some credit cards offer incentives such as points towards merchandise
- Convenient payment option for purchases made on the Internet

Potential Drawbacks of a Credit Card

- May encourage you to spend more, and incur more debt, than you can handle
- May be difficult for you to meet the monthly payments
- May be difficult to understand all the terms and conditions of the card
- Typically more expensive than other forms of credit such as a line of credit or a personal loan

What Type of Credit Card Is Right for You?

Table 1

Type of Card	Features	When to Choose
Standard Card (Page 4)	<ul style="list-style-type: none"> • Generally has no annual fee • High APR • Often has reward programs 	<ul style="list-style-type: none"> • If you normally pay your balance off in full each month • If the value of the reward program outweighs your annual fee (if any)
Low-Rate Card (Page 5)	<ul style="list-style-type: none"> • Generally has an annual fee • Lower APR than standard card • May have reward programs 	<ul style="list-style-type: none"> • If you tend to carry a balance • If your savings on the interest outweigh your annual fee (Table 4 shows how much you could save with a low-rate card)
Retail Card (Page 6)	<ul style="list-style-type: none"> • Generally has no annual fee • Higher APR than standard card • Calculation of APR is often complex • Generally offers store discounts or other reward programs 	<ul style="list-style-type: none"> • If you normally pay your balance off in full each month • If you often shop at a specific retailer • If you can take advantage of the benefits the retailer offers
Charge Card (Page 6)	<ul style="list-style-type: none"> • Generally has an annual fee • Must pay entire balance off each month • Generally offers an unlimited credit limit • High penalty rate for late payments • Often has reward programs 	<ul style="list-style-type: none"> • If you pay your balance off in full each month • If you can benefit from options such as unlimited credit or reward programs

Credit Card Comparison Table – Standard Cards

Most standard credit cards have no annual fee but institutions normally charge a high interest rate on outstanding balances. Some of them offer attractive initial interest rates that increase significantly after the introductory period expires. In addition, these institutions frequently offer reward programs as “add-ons” to standard cards, so shop around for the best package. Table 2 lists various brands of standard cards.

Table 2

Card Issuer (in alphabetical order)	Card Name	Annual Fee (\$)	Annual Interest Rate for Purchases ¹ (%)	Annual Interest Rate for Cash Advances or Balance Transfers ² (%)	Grace Period (Days)
American Express	Standard Card	-	9.90 (6-month introductory rate) 17.99 - 19.99 (thereafter)	19.99	21
	Companion Card	15	18.99	18.99	21
Bank of Montreal	No-Fee MasterCard	-	18.40	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	19
Caisses Populaires Desjardins	Classic Visa	-	18.90	18.90	21
Canadian Tire	Options MasterCard	-	18.90	18.90	21
Capital One Bank	Standard MasterCard	-	4.9 (6-month introductory rate) 9.90 - 19.80 (thereafter)	19.80	25
CIBC	Classic Visa	-	18.50	18.50	24
CS Alterna Bank	MasterCard	-	18.90	18.90	19
CS COOP	MasterCard	-	18.40	18.40	19
Diners Club International	Standard Visa	65	22.00	22.00	21
Laurentian Bank	Black Visa	-	17.99	17.99	21
National Bank	Regular MasterCard	-	18.90	18.90	21
Niagara Credit Union	Regular MasterCard	-	17.50	17.50	21
Royal Bank	Classic Visa	-	17.90	18.50	21
Scotiabank	No-Fee Classic Visa	-	18.99	18.99	26
	Classic Visa	8	18.50	18.50	26
TD Bank	TD Green Visa	-	18.50	18.50	21
Vancouver City Savings Credit Union	EnviroFund Visa	-	18.50	18.50	21

¹ For any outstanding balances, interest is calculated from the date of purchase of the item.

² For cash advances or balance transfers, interest is calculated from the date funds are borrowed. There is no grace period.

Credit Card Comparison Table – Low-Rate Cards

If you tend to carry a balance each month, low-rate credit cards may be beneficial to you, since the interest charged is lower than on standard cards. Even though most financial institutions charge an annual fee for low-rate cards, they could save you money in the long run because of the lower interest rate on outstanding balances (see Table 4). Shop around for a credit card that suits your needs, since terms and conditions vary. Table 3 lists various brands of low-rate cards.

Table 3

Card Issuer (in alphabetical order)	Card Name	Annual Fee (\$)	Annual Interest Rate for Purchases ¹ (%)	Annual Interest Rate for Cash Advances or Balance Transfers ² (%)	Grace Period (Days)
Bank of Montreal	Low-Rate MasterCard	15	12.90	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	23
Caisses Populaires Desjardins	Low-Rate Option Visa	25	10.90	10.90	21
CIBC	Select Visa	29	10.50	10.50	24
CS Alterna Bank	Low-Rate Option MasterCard	15	13.90	9.90	19
CS COOP	Low-Rate Option MasterCard	15	13.90	8.90	19
Laurentian Bank	Black Visa (Reduced Rate Option)	29	10.50	10.50	21
National Bank	Low-Rate Option MasterCard	15	13.90	8.90	21
Niagara Credit Union	Select MasterCard	25	9.25	9.25	21
Royal Bank	Classic Low-Rate Option Visa	25	10.50	10.50	21
Scotiabank	Value Visa ScotiaLine Visa	29 -	10.50 as low as prime + 2	10.50 as low as prime + 2	26 26
TD Bank	TD Bank Emerald Visa	12	12.90	12.90	21
Vancouver City Savings Credit Union	EnviroFund Visa (Low Interest)	25	10.50	10.50	21

¹ For any outstanding balances, interest is calculated from the date of purchase of the item.

² For cash advances or balance transfers, interest is calculated from the date funds are borrowed. There is no grace period. Items in bold represent a change from the last report, or a new item.

These figures are accurate as of December 1, 2001 and are subject to change.

How Much Money Could You Save with a Low-Rate Credit Card?

Table 4

	Standard Credit Card	Low-Rate Credit Card
Average monthly balance	\$2,500	\$2,500
Annual Percentage Rate (APR) ¹	x 18.5%	x 12%
Annual interest charges	= \$462.50	= \$300
Annual fee ¹	+ \$0	+ \$20
Total annual cost of the card	= \$462.50	= \$320
Total annual savings²	\$0	\$142.50

¹ Based on the average of the six major banks for both standard and low-rate cards

² This example assumes you carry a constant balance of \$2,500 and that you make all minimum payments on time. Otherwise, you may incur late payment charges, your APR may increase, or you may be subject to other additional fees that will increase your overall costs. If you compare the low-rate card with a retail card, for the same outstanding balance, the savings could be even higher.

Credit Card Comparison Table – Retail Cards

Credit cards issued by retail stores are known as “retail cards”. Retailers often charge a high interest rate on outstanding balances, but usually offer reward programs such as discounts on store merchandise, in return for using their cards. Retail cards can be particularly advantageous if you pay your balance in full each month and frequently shop at the same retailer. If you do not pay your balance in full, you may obtain an initial interest-free period (time period between statement date and

purchase date) since some retailers calculate interest from the date your statement is issued rather than from the date your item is purchased. In addition, certain stores (except in Quebec) may charge less interest if you pay at least 50% of the outstanding balance. **Check with your retailer** for the terms and conditions that apply. Table 5 lists various brands of retail credit cards.

Table 5

Card Issuer (in alphabetical order)	Annual Fee (\$)	Interest Rate (%)	Grace Period (Days)	Interest Calculated from Purchase Date	Interest Calculated from Statement Date
Canadian Tire	-	28.8	25-30	-	✓
Hudson's Bay	-	28.8	25-30	-	✓
Petro-Canada	-	24.0	30	✓	-
Sears	-	28.8	25-30	-	✓
Zellers	-	28.8	25-30	-	✓

These figures are accurate as of December 1, 2001 and are subject to change.

Credit Card Comparison Table – Charge Cards

A charge card is a *specific* kind of credit card. The balance on a charge card account is **payable in full** by the due date and usually may not be rolled over from one billing period to the next. However, you may obtain certain benefits, such as not having a pre-set credit limit (purchases are normally approved based on your account experience and your personal resources) or being able to participate in reward programs.

Some companies also allow a longer grace period to give you more flexibility in paying your balance. However, such benefits usually come at a price: there is an annual fee, and late payments are subject to a high penalty rate. In addition, if you pay late, your account may be temporarily frozen or your card revoked. Again, shop around to find the card that is best for you. Table 6 lists various brands of charge cards.

Table 6

Card Issuer (in alphabetical order)	Annual Fee (\$)	Late Penalty Interest Rate (%)	Grace Period (Days)	Penalty Interest Calculated from Purchase Date	Penalty Interest Calculated from Statement Date
American Express	55	30.0	30	-	✓
Diners Club International	65	30.0	52 - 60	-	✓
Irving Oil	-	24.0	25	-	✓

These figures are accurate as of December 1, 2001 and are subject to change.

Financial Consumer's Checklist

- Have you thought about:
 - How much credit you can handle
 - Whether you will be able to pay your balance in full each month
 - Whether you would benefit from reward programs
 - Whether you are prepared to pay an annual fee
 - Whether you shop at a particular retailer often enough to benefit from their card
- Have you **shopped around** for the credit card that best suits your needs?
- Do you understand the **terms and conditions** of the card, including the following?
 - Annual fee or other applicable fees
 - Minimum monthly payment
 - Interest charged on purchases, cash advances and balance transfers and how the interest is calculated
 - Grace period
 - Consequences of late payments
 - Other features and enhancements
- Have you inquired about the **customer service** or support available for the card you have chosen?

Tips to Help You Save Money

- **Ask questions.** Your financial institution or retailer can help you.
- Don't base your credit decision solely on one factor, such as introductory rates or reward programs. Look for the **overall package** that **best suits your needs** and your financial situation.
- If possible, **pay your entire balance** in full each month.
- If you carry a balance on a credit card, remember that interest is normally charged from the date purchases are made until they are paid in full. **Making payments between statements may save you interest charges.**
- If you carry a balance on a credit card, pay it off with another form of credit that has a lower annual percentage rate (APR), such as a **line of credit**.
- Take advantage of **pre-authorized payment** options to ensure your monthly payments are made by the due date.
- **Minimize cash advances**, since interest is charged from the day you borrow until the advances are paid in full.

Glossary

Annual Fee: A charge levied each year for use of a credit card, billed directly to your monthly statement. Many credit cards come without an annual fee.

Annual Percentage Rate (APR) or Interest Rate: Annual interest rate charged on outstanding balances, following the grace period, on items purchased. For cash advances or balance transfers, the APR is charged from the day the funds are withdrawn. There is no grace period.

Balance Transfer: Transfer of outstanding credit card balances from one card to another, usually between different institutions.

Bank of Canada Rate or Bank Rate: The Bank of Canada Rate or Bank Rate is the rate at which financial institutions can borrow money from the central bank. Changes to the Bank Rate lead to moves in the prime rate of the commercial banks, which serves as a benchmark for many of their loans. These changes can also indirectly affect mortgage rates, and the interest paid to consumers on bank accounts, Guaranteed Investment Certificates (GICs) and other savings.

Cash Advance: A withdrawal of funds from your credit card up to the credit limit allowed. May be subject to daily limits.

Federal Funds Rate (U.S.): The interest rate at which U.S. depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Grace Period: The time period between the purchase date of the item and the payment due date during which no interest is charged, if the balance is paid in full by the due date.

Late Payment Fee: Fee charged if the minimum monthly payment is not made by the due date.

Minimum Payment: Minimum amount payable each month on the balance owing on a credit card.

Penalty Interest Rate: Rate at which penalty charges are calculated. Only applies to charge cards.

Spread: Difference between the Bank of Canada Rate and the credit card interest rate charged by a financial institution or retailer.