



Credit Cards and You

Spring 2002

In this issue:

- Bank of Canada Rate changes2
- 2001 credit card facts and figures3
- Canadians and credit cards3
- The credit card decision4
- What type of credit card is right for you?4
- Credit card comparison tables.....5-8
- About introductory rates.....8
- How interest is calculated on credit cards.....9
- Financial consumer’s checklist.....13
- Tips to help you save money.....13



www.fcac-acfc.gc.ca

For additional information, to provide comments or to obtain copies of this publication, please contact:

Financial Consumer Agency of Canada
427 Laurier Avenue West
Enterprise Building, 6th Floor
Ottawa ON K1R 1B9

Phone: 1-866-461-3222
Fax: (613) 941-1436

E-Mail for general inquiries: info@fcac-acfc.gc.ca
E-mail for publications: pub@fcac-acfc.gc.ca

Web site: www.fcac-acfc.gc.ca

© Her Majesty the Queen in Right of Canada
(Financial Consumer Agency of Canada)
ISSN 1499-755X

Printed in Canada



About *Credit Cards and You*

The Financial Consumer Agency of Canada (FCAC) has assumed responsibility from Industry Canada for producing the quarterly credit card costs publication, now entitled *Credit Cards and You*. 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 publication is intended to provide user-friendly information related to credit card costs. Technical terms used in *Credit Cards and You* are included in a glossary of definitions for your ease of reference.

This publication does not include an exhaustive list of credit cards available in Canada, **nor does it include Gold, Platinum, co-branded or affinity credit cards**. The Agency does not advocate the use of specific credit cards.

The figures included in this publication are as of March 1, 2002 and are subject to change. Therefore, please contact your financial institution or retailer to verify that the information is up to date.

For additional information for consumers on financial products and services, visit the FCAC Web site at: < www.fcac-acfc.gc.ca >.

About the FCAC

The Financial Consumer Agency of Canada (FCAC) was created on October 24, 2001 by the *Financial Consumer Agency of Canada Act* to strengthen the oversight of consumer protection measures in the federally regulated financial sector and to expand consumer education activities.

With the creation of the FCAC, consumer protection activities in the federally regulated financial sector, which were previously spread among several agencies, were consolidated under the Agency.

The FCAC has a two-fold mandate: to educate consumers about financial services, and their legal protections as consumers of financial services, and to oversee and report on compliance by federally regulated financial institutions with federal consumer protection provisions, as well as with their own voluntary codes, self-regulatory initiatives and public commitments.

Bank of Canada Rate Changes and Credit Card Interest Rates

Since the December 2001 issue of *Credit Cards and You*, the Bank of Canada has reduced the Bank Rate¹, as indicated below. The current Bank Rate is 2.25%.

Bank of Canada Rate	
January 15, 2002	Decrease from 2.5% to 2.25%
March 5, 2002	No change

The next Bank of Canada Rate announcement is scheduled for Tuesday, April 16, 2002.

In 2001, Canada lowered its Bank Rate by 3.5% (from 6% to 2.5%), while

the United States reduced its key federal funds rate by 4.75% (from 6.5% to the current 1.75%). During the period January to November 2001, credit card interest rates for U.S. banks, on average, fell 1.4%². During the same time period, interest rates on credit cards in Canada did not change. However, since December 1, 2001, **five of the 24 Canadian financial institutions listed in this publication have lowered their credit card interest rates** by an average of 0.9%³. Furthermore, one institution has introduced a prime¹-based credit card, which is a variation on a low-rate card.

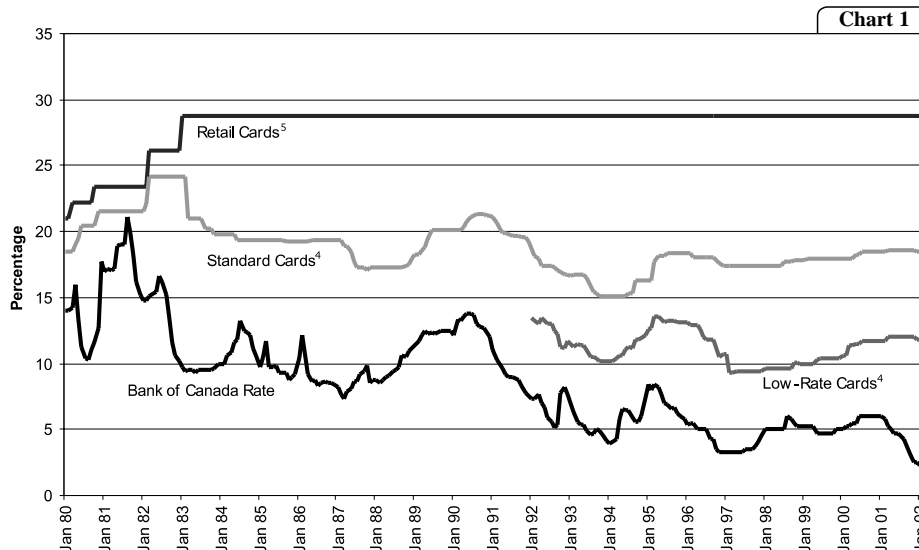
In this issue of *Credit Cards and You*, interest rates on credit cards vary from as low as prime + 2% to 13.9% for low-rate cards, and from as low as 9.9% to 22% for standard cards. See the comparison tables on pages 5 to 8 for more information.

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. Although certain Canadian financial institutions have recently lowered their credit card rates, 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 19 years (see Chart 1 below).

Consequently, Canadians have witnessed a growing spread between the Bank of Canada's benchmark rate and credit card interest rates. For standard credit cards, the average spread⁴ between these two rates has been 10.26% since January 1980, 13.33% since 1997 and is currently at its highest level: 16.2%. The average interest rate spread on low-rate credit cards⁴ is also at a high of 9.52%. The average interest rate spread on retail cards⁵ is 26.55%.

Financial institutions indicate that credit card interest rates are based on a variety of factors in addition to the cost of funds. These factors include losses due to fraud, customer defaults and delinquencies, ongoing infrastructure costs for administering credit card programs and the risks associated with extending unsecured credit. For example, for the six major banks, loan loss provisions (to cover customer defaults and delinquencies) on credit card outstanding balances have increased from 2.49% in 2000 to 3.02% in 2001⁶.

The Bank of Canada Rate and Credit Card Interest Rates



¹ See glossary for definition.

² Source: U.S. *Federal Reserve Statistical Release* on consumer credit, March 7, 2002

³ Average includes both standard and low-rate credit cards of the five financial institutions that lowered their interest rates (Bank of Montreal, Caisses Populaires Desjardins, CS Alterna, CS CO-OP and Scotiabank).

⁴ Based on the average of the six major banks (Bank of Montreal, CIBC, National Bank, Royal Bank, Scotiabank and TD Bank) for purchases. (An average for all financial institutions listed in this publication is not available.)

⁵ Based on the average of the Sears card and the HBC card. (An average for all retailers listed in this publication is not available.)

⁶ Source: Canadian Bankers Association. Credit card outstanding balances exclude securitized credit cards.

2001 Credit Card Facts and Figures

At the end of 2001, an estimated 68.6 million¹ credit cards were in circulation in Canada (up from approximately 66.9 million² at the end of 2000), or 2.9 cards for every adult Canadian over the age of 18. Of these, 44.1 million were Visa or MasterCard credit cards and 24.5 million² were cards issued by large department stores, gasoline companies and other issuers such as American Express and Diners Club International. The Canadian Bankers Association publishes annual statistics on Visa and MasterCard credit cards³. Highlights are found in the table below. Similar statistics are not available for retail cards.

Visa and MasterCard Credit Card Statistics

Table 1

	2000	2001	Change	% Change
Number of cards in circulation	40.1 million	44.1 million	+ 4 million cards	+ 10%
Number of accounts with unpaid balances	18.5 million	19.6 million	+ 1.1 million accounts	+ 5.9%
Average purchase	\$95.57	\$99.16	+ \$3.59	+ 3.8%
Percentage of fraudulent accounts written off ⁴	0.125%	0.103%	–	- 0.02%
Percentage of delinquent accounts (90 days and over) ⁴	0.7%	0.8%	–	+ 0.1%

Canadians and Credit Cards⁵

According to a survey conducted by Leger Marketing in October 2001, 76 per cent of Canadians over the age of 18 have at least one credit card. The survey found the following interesting facts about cardholders.

Awareness of Interest Rate

- 41% of **all Canadian credit card holders** are not aware of the interest rate charged by their main credit card company.
- 41% of **cardholders who pay only the minimum amount** shown on their credit card statement each month are not aware of the interest they are charged on the balance they carry from one month to another.
- 33% of **cardholders owing more than \$500** to a credit card company on the day of the survey did not know the interest they were paying on the amount owing.

Average Debt Load⁶

- Canadian cardholders owe an average of \$1,269 to credit card companies.
- Lowest amount owed is in Quebec (average of \$1,050).
- Highest amount owed is in Alberta (average of \$1,500).
- Canadians between the ages of 55 and 64 are the most indebted, owing an average of \$1,612 on their credit cards.

¹ This estimate only includes institutions listed in this publication. The basis for this estimate may differ from one issuer to another. The assistance of all card issuers and that of the Canadian Bankers Association in compiling this information is gratefully acknowledged.

² The April 2001 issue of *Credit Card Costs Report* (published by Industry Canada) indicated that there was 56.7 million cards in circulation for 2000. This figure was compiled using the number of "active" cards rather than the number of cards in circulation for retailers. The FCAC recalculated this figure using the number of cards in circulation for all retailers. The figure for 2000 is then 66.9 million cards in circulation.

³ Source: *Credit Card Statistics – Visa and MasterCard*, Canadian Bankers Association. Data is as of October 2000 and 2001.

⁴ See glossary for definition.

⁵ Source: *Canadians and Credit Cards*, Leger Marketing, October 2001. Sample size = 1507. Margin of error is $\pm 2.6\%$, 19 times out of 20.

⁶ For this question, sample size = 895, since 276 out of 1171 cardholders did not provide an answer.

Paying Credit Card Bills On Time

- 51 per cent of cardholders always make their credit card payment before the due date.
- 21 per cent of cardholders rarely or never pay their bill on time.

The Credit Card Decision: Shop Around!

Using credit cards 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 2 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.

What Type of Credit Card Is Right for You?

Table 2

Type of Card	Features	When to Choose
Standard Card (Page 5)	<ul style="list-style-type: none"> <input type="checkbox"/> Generally has no annual fee <input type="checkbox"/> High APR <input type="checkbox"/> Often has reward programs 	<ul style="list-style-type: none"> <input type="checkbox"/> If you normally pay your balance off in full each month <input type="checkbox"/> If the value of the reward program outweighs your annual fee (if any)
Low-Rate Card (Page 6)	<ul style="list-style-type: none"> <input type="checkbox"/> Generally has an annual fee <input type="checkbox"/> Lower APR than standard card <input type="checkbox"/> May have reward programs 	<ul style="list-style-type: none"> <input type="checkbox"/> If you tend to carry a balance <input type="checkbox"/> If your savings on the interest outweigh your annual fee (Table 5 shows how much you can save with a low-rate card)
Retail Card (Page 7)	<ul style="list-style-type: none"> <input type="checkbox"/> Generally has no annual fee <input type="checkbox"/> Can usually only be used at the issuing retailer or a limited number of stores <input type="checkbox"/> Higher APR than standard card <input type="checkbox"/> Calculation of APR is often complex <input type="checkbox"/> Generally offers store discounts or other reward programs 	<ul style="list-style-type: none"> <input type="checkbox"/> If you normally pay your balance off in full each month <input type="checkbox"/> If you often shop at a specific retailer <input type="checkbox"/> If you can take advantage of the benefits the retailer offers
Charge Card (Page 8)	<ul style="list-style-type: none"> <input type="checkbox"/> Generally has an annual fee <input type="checkbox"/> Must pay entire balance off each month <input type="checkbox"/> Generally offers an unlimited credit limit <input type="checkbox"/> High penalty rate for late payments <input type="checkbox"/> Can usually only be used at the issuing retailer or a limited number of stores <input type="checkbox"/> Often has reward programs 	<ul style="list-style-type: none"> <input type="checkbox"/> If you pay your balance off in full each month <input type="checkbox"/> If you can benefit from options such as unlimited credit or reward programs

Comparison Table – Standard Credit Cards

Most standard credit cards have no annual fee but institutions normally charge a high interest rate on outstanding balances. Some companies offer attractive initial interest rates that increase significantly after the introductory period expires (see section “About Introductory Rates”, on Page 8, for more information). In addition, many institutions frequently offer reward programs as “add-ons” to standard cards, so **shop around** for the best package. Gold, Platinum, co-branded and affinity credit cards are not included in the following table.

Table 3

Card Issuer (in alphabetical order)	Card Name	Annual Fee (\$)	Over the Limit Fee ¹ (\$)	Annual Interest Rate for Purchases (%) ²	Annual Interest Rate for Cash Advances (%) ³	Annual Interest Rate for Balance Transfers (%) ³	Grace Period on Purchases (Days) ⁴
American Express	Standard Card	—	—	9.90 (6-month introductory rate) 17.99 – 19.99 (thereafter)	19.99	19.99	21
Bank of Montreal	No-Fee MasterCard	—	20	18.40	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	19
Caisses Populaires Desjardins	Classic Visa	—	—	17.90	17.90	17.90	21
Canadian Tire	Options MasterCard	—	—	18.90	18.90	18.90	21
Capital One Bank	MasterCard	—	20	0.00 (6-month introductory rate) 9.90 – 19.80 (thereafter)	19.80	3.90 (6-month introductory rate) 9.90 – 19.80 (thereafter)	25
CIBC	Classic Visa Entourage American Express	— —	— —	18.50 19.50	18.50 19.50	18.50 19.50	24 24
Citibank	Citi MasterCard	—	10	16.90 – 18.50	16.90 – 18.50	4.90 (6-month introductory rate) 16.90 – 18.50 (thereafter)	21
CS Alterna Bank	MasterCard	—	10	18.40	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	19
CS CO-OP	MasterCard	—	10	18.40	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	5.90 (limited time offer until May 31, 2002) 18.40 (thereafter)	19
Diners Club International	Standard Card	65	—	22.00	22.00	22.00	25
HSBC	MasterCard	—	10	18.40	5.90 (limited time offer until June 30, 2002) 18.40 (thereafter)	5.90 (limited time offer until June 30, 2002) 18.40 (thereafter)	19
Laurentian Bank	Black Visa	—	—	17.99	17.99	17.99	21
MBNA Canada	Preferred MasterCard	—	20	9.99 – 17.99	9.99 – 17.99	3.90 (4-month introductory rate) 9.99 – 17.99 (thereafter)	25
National Bank	Regular MasterCard	—	—	18.90	18.90	18.90	21
Niagara Credit Union	Regular MasterCard	—	—	17.50	17.50	17.50	21
President's Choice Bank	President's Choice Financial MasterCard	—	—	17.97	17.97	5.97 on any balance transfers made before August 30 (rate is applicable until the balance transfer is paid in full)	25
Royal Bank	Visa Classic	—	10	17.90	18.50	18.50	21
Scotiabank	No-Fee Classic Visa Classic Visa	— 8	10 10	18.50 17.90	18.50 17.90	18.50 17.90	26 26
TD Bank	TD Green Visa	—	—	18.50	18.50	18.50	21
Vancouver City Savings Credit Union	EnviroFund Visa	—	10	18.50	18.50	18.50	21

¹ This fee is charged on a monthly basis if your balance exceeds your monthly credit limit.

² If the balance is not paid in full by the due date, interest is calculated from the date of purchase of the item.

³ For cash advances or balance transfers, interest is calculated from the date funds are borrowed. There is no grace period.

⁴ The grace period represents the number of days between the statement date and the payment due date. The actual interest-free period could be longer, depending on the date of the purchase. See Page 9 for more information.

Items in bold represent a change from the December 2001 issue of *Credit Cards and You*, or a new item.

Comparison Table – Low-Rate Credit 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 5, on Page 7). **Shop around** for a credit card that suits your needs, since terms and conditions vary. Gold, Platinum, co-branded and affinity credit cards are not included in the following table.

Table 4

Card Issuer (in alphabetical order)	Card Name	Annual Fee (\$)	Over the Limit Fee ¹ (\$)	Annual Interest Rate for Purchases (%) ²	Annual Interest Rate for Cash Advances (%) ³	Annual Interest Rate for Balance Transfers (%) ³	Grace Period on Purchases (Days) ⁴
Bank of Montreal	Low-Rate MasterCard	15	20	12.90	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	23
Caisses Populaires Desjardins	Low-Rate Option Visa	25	—	8.90	8.90	8.90	21
CIBC	Select Visa	29	—	10.50	10.50	10.50	24
CS Alterna Bank	Low-Rate Option MasterCard	15	10	12.90	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	19
CS CO-OP	Low-Rate Option MasterCard	15	10	12.90	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	5.90 (limited time offer until May 31, 2002) 7.90 (thereafter)	19
HSBC	Low-Rate MasterCard	15	10	12.90	5.90 (limited time offer until June 30, 2002) 7.90 (thereafter)	5.90 (limited time offer until June 30, 2002) 7.90 (thereafter)	23
Laurentian Bank	Black Visa (Reduced Rate Option)	29	—	10.50	10.50	10.50	21
National Bank	Low-Rate Option MasterCard	15	—	13.90	8.90	8.90	21
	Syncro MasterCard	35	—	prime +4%	prime +4%	prime +4%	21
Niagara Credit Union	Select MasterCard	25	—	9.25	9.25	9.25	21
Royal Bank	Visa Classic Low-Rate	25	10	10.50	10.50	10.50	21
Scotiabank	Value Visa	29	10	9.90	9.90	9.90	26
	ScotiaLine Visa	—	10	as low as prime +2%	as low as prime +2%	as low as prime +2%	26
TD Bank	TD Emerald Visa	12	—	12.90	12.90	12.90	21
Vancouver City Savings Credit Union	EnviroFund Visa (Low Interest)	25	10	10.50	10.50	10.50	21

¹ This fee is charged on a monthly basis if your balance exceeds your monthly credit limit.

² If the balance is not paid in full by the due date, interest is calculated from the date of purchase of the item.

³ For cash advances or balance transfers, interest is calculated from the date funds are borrowed. There is no grace period.

⁴ The grace period represents the number of days between the statement date and the payment due date. The actual interest-free period could be longer, depending on the date of the purchase. See Page 9 for more information.

Items in bold represent a change from the December 2001 issue of *Credit Cards and You*, or a new item.

How Much Money Can You Save with a Low-Rate Credit Card or a Line of Credit?

Table 5

	Standard Credit Card	Low-Rate Credit Card	Line of Credit
Average monthly balance	\$2,500	\$2,500	\$2,500
Annual percentage rate (APR) ¹	x 18%	x 11%	x 8.75%
Annual interest charges	= \$450	= \$275	= \$218.75
Annual fee ¹	+ \$0	+ \$20	+ \$0
Total annual cost	= \$450	= \$295	= \$218.75
Total annual savings²	\$0	\$155	\$231.25

¹ Based on the average of the six major banks, caisses populaires and credit unions listed in this publication for both standard and low-rate cards. For lines of credit, the APR is an approximation of the industry average as of March 2002 and will vary between institutions and with your credit rating.

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.

Comparison Table – Retail Credit 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 not have to pay interest between the purchase date and the statement date, since some retailers start calculating interest from the date your statement is issued. 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 6

Card Issuer (in alphabetical order)	Annual Fee (\$)	Interest Rate (%)	Grace Period (Days)	Interest Calculated from Purchase Date ¹	Interest Calculated from Statement Date ²
Canadian Tire	–	28.8	25-30	–	✓
HBC³	–	28.8	25-30	–	✓
Petro-Canada	–	24.0	25-30	✓	–
Sears	–	28.8	25-30	–	✓

¹ If the balance is not paid in full by the due date, interest is calculated from the date of purchase of the item.

² If the balance is not paid in full by the due date, interest is calculated from the statement date.

³ As of September 2001, new Zellers and Hudson’s Bay credit cards are issued under the HBC brand. However, a number of Zellers and Hudson’s Bay credit cards issued prior to September 1 are still in circulation.

Items in bold represent a change from the December 2001 issue of *Credit Cards and You*, or a new item.

Comparison Table – Charge Cards

A charge card is a *particular* kind of credit card. The balance on a charge card is **payable in full** by the due date and usually may not be rolled over to the next billing period. However, you may obtain certain benefits, such as not having a pre-set credit limit (purchases are normally approved based on your account history 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 7

Card Issuer (in alphabetical order)	Annual Fee (\$)	Penalty Interest Rate (%)	Grace Period (Days)	Penalty Interest Calculated from Purchase Date ¹	Penalty Interest Calculated from Statement Date ²
American Express	55	30.0	30	–	✓
Diners Club International	65	30.0	52 - 60	–	✓
Irving Oil	–	24.0	25	–	✓

¹ If the balance is not paid in full by the due date, the penalty is calculated from the date of purchase of the item.

² If the balance is not paid in full by the due date, the penalty is calculated from the statement date.

About Introductory Rates

You may have received offers for credit cards with attractive introductory rates. If you carry a balance on your credit card, you may benefit from such offers. However, be aware that these reduced rates on purchases, cash advances or balance transfers are for a limited time only and can increase significantly once the introductory period expires. Before applying for a specific credit card, it is important that you understand the terms and conditions of the introductory offer. Ask the credit card issuer:

- when the introductory period ends;
- what happens to the interest rate at the end of the introductory period;
- if any other fees or conditions apply to the offer;
- if the introductory rate period will suddenly come to an end if you make a late payment or exceed the credit card limit (in such cases, the introductory rate may be raised to the card's regular interest rate).

Don't base your credit card decision solely on one factor such as attractive introductory rates. You should fully understand all the features and conditions of the card you are considering in order to decide whether it is right for you.

How Interest Is Calculated on Credit Cards

If you always pay in full the amount owing on your credit card by the due date, you are never charged any interest. If you do not always pay in full the amount owing on your credit card by the due date, it is important for you to understand how your credit card issuer calculates the interest charged on the different transactions that appear on your monthly statement.

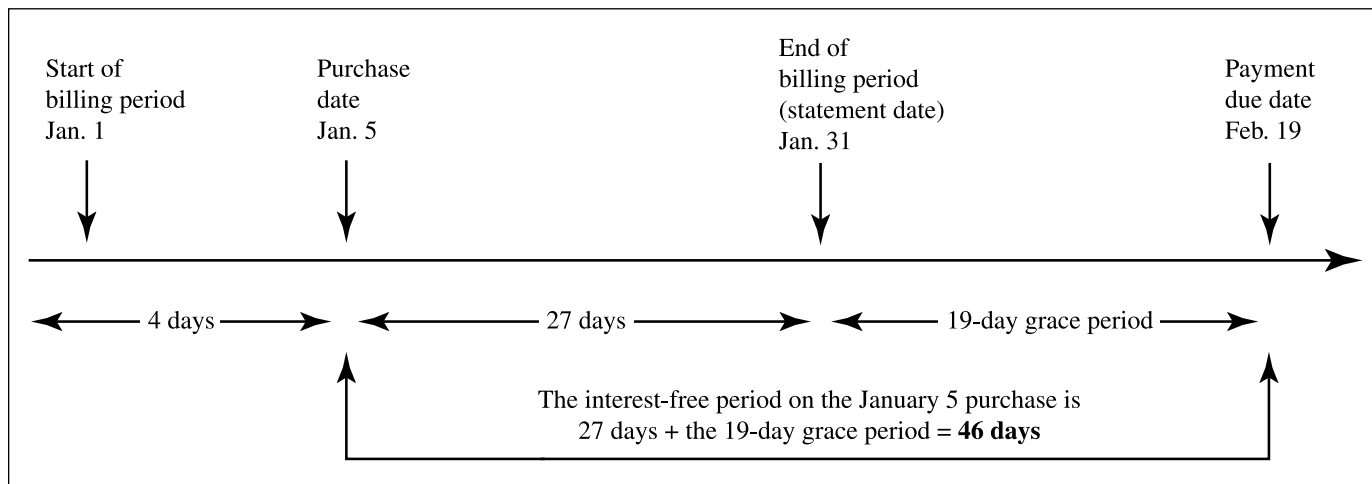
- ❑ **New purchases** (i.e., purchases appearing on your billing statement for the first time) **could** benefit from an **interest-free period** under certain conditions (see the section on interest-free periods below).
- ❑ **Purchases carried over from a prior billing period** are charged interest from the date the purchases were made (some credit card issuers charge interest from the date the purchases are posted to the account) until they are paid in full.
- ❑ **Cash advances and balance transfers are always charged interest from the day the funds are withdrawn.** There is no interest-free period.

The Interest-Free Period on New Purchases

The interest-free period on new purchases represents the time you have from the day you make a purchase to when the credit card issuer begins charging you interest on that purchase. This period includes a grace period provided by the credit card issuer, which can vary from 19 to 26 days from the statement date to the payment due date (see Pages 5 to 8 to find out the length of the grace period that applies to your credit card after the statement date, or ask your credit card issuer).

Let's look at an example of an interest-free period based on the following assumptions¹:

- ❑ Billing period covers transactions made between January 1 and January 31 (31-day billing period).
- ❑ New purchase was made on January 5.
- ❑ Grace period provided by credit card issuer is 19 days (from the statement date). Therefore, the payment due date is February 19.



The total interest-free period on the purchase made on January 5 is 46 days, and **could apply if certain conditions are met** (see below).

When Does the Interest-Free Period Apply?

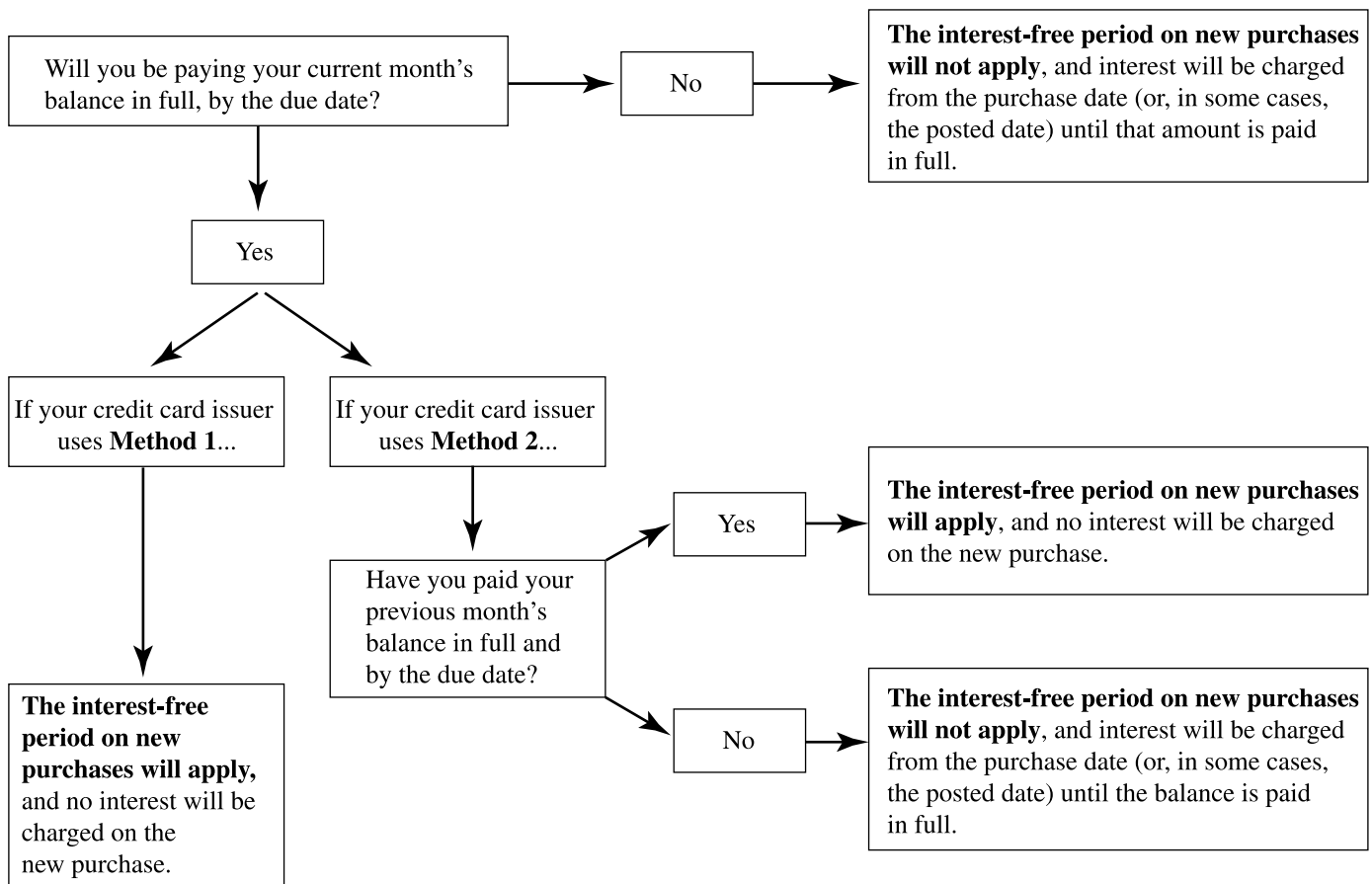
To determine whether the interest-free period applies to your new purchases (i.e., purchases appearing on your billing statement for the first time), credit card issuers use one of two methods (described on next page as Method 1 and Method 2). Verify your credit card agreement or ask your credit card issuer to determine which method applies to your credit card.

¹ For illustration purposes only. Your situation may be different.

Method 1	Method 2
In order for the interest-free period to apply to new purchases, you must pay your current month's balance in full, by the due date.	In order for the interest-free period to apply to new purchases, you must pay your current month's balance in full, by the due date, and also have paid your previous month's balance in full, by the due date (i.e., you are not carrying a balance from the previous month).
<p>Example:</p> <p>Mr. Jones carried over a balance of \$1,000 from the month of December (i.e., he did not pay his December balance in full). During the month of January, he made a new purchase of \$3,000. He paid his new balance in full, by the due date indicated on his statement.</p> <p>If Mr. Jones' credit card issuer uses Method 1, Mr. Jones will have to pay interest only on the \$1,000 carried over from December (remember, purchases carried over from a prior billing period are charged interest from the initial purchase date [or, in some cases, the posted date] until they are paid in full).</p> <p>If Mr. Jones' credit card issuer uses Method 2, Mr. Jones will have to pay interest on the \$1,000 carried over from December and also on the new purchase of \$3,000. This occurs because Mr. Jones did not pay his December balance in full.</p>	

Interest-Free Period Flow Chart

Follow the flow chart below to find out whether the interest-free period applies to your new purchase. You may need to find out whether your credit card issuer uses Method 1 or Method 2 (described above) in order to properly determine the outcome of the flow chart.



The Average Daily Balance and the Daily Balance Methods of Interest Calculation

The two most common ways of calculating interest charges are the **average daily balance method** and the **daily balance method**.

Average Daily Balance Method

The average daily balance on your credit card is the balance you carried during the billing period, averaged by the number of days in the billing period (usually 30 or 31). The average daily balance is calculated at month's end, by adding the balance at the end of each day, then dividing the total by the number of days in the billing period. To calculate the interest charged for the month, multiply the average daily balance by the daily percentage rate (obtained by taking the annual percentage rate [APR] and dividing by the number of days in the year [365]), then multiply by the number of days in the billing period.

Daily Balance Method

Unlike the average daily balance method that calculates the interest owed only at month-end, this method calculates interest owed at the end of each *day* of the billing period. To calculate the daily interest charge, multiply the daily balance by the daily percentage rate (obtained by taking the annual percentage rate [APR] and dividing by the number of days in the year [365]). Add up the resulting daily interest charges to obtain the amount of interest charged for the month.

Average Daily Balance and Daily Balance Methods – Illustration

Mrs. Smith received her new credit card on January 1. On January 5, she made a purchase of \$3,000. Her January statement, covering her transactions between January 1 and January 31 (31-day billing period), has a payment due date of February 19.

Mrs. Smith did not pay her bill in full by the due date. Therefore, the grace period did not apply to her new purchase, and interest is calculated from the date of purchase (January 5). Assuming Mrs. Smith did not make any purchases during the month of February, her February statement shows a **charge of approximately \$41** in interest for the month, based on an annual percentage rate (APR) of 18.5%. The daily percentage rate of 0.05068%, shown in the calculations below, is the APR divided by the number of days in the year (i.e., $18.5\% \div 365$).

These calculations have been abbreviated, for simplicity. See Appendix 1 for the detailed calculations.

	Average Daily Balance Method	Daily Balance Method
January 1 to January 4 – No transactions	\$0 for 4 days	$\$0 \times (0.05068\%) = \0 $\$0 \times 4 \text{ days} = \0
January 5 to January 31 – Purchase of \$3,000	\$3,000 for 27 days	$\$3,000 \times (0.05068\%) = \1.52 $\$1.52 \times 27 \text{ days} = \41.05
Calculation of Average Daily Balance	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 27 \text{ days})$ 31 days in the billing period = Average daily balance of \$2,612.90	Not applicable
Total Interest Charged¹	Average daily balance x Daily percentage rate x Number of days in the billing period = $\$2,612.90 \times 0.05068\% \times 31 \text{ days}$ = \$41.05	$\$0 + \$41.05 = \mathbf{\$41.05}$

¹ The average daily balance and daily balance methods generally yield the same interest charge.

The Benefits of An Early Credit Card Payment

If you know that it will not be possible for you to pay your credit card balance in full by the due date, **pay off as much as possible, as soon as you can** (well in advance of the due date). This will reduce your daily balance earlier and save you money in interest charges. The following example illustrates the benefits of an early credit card payment.

The Benefits of Making An Early Credit Card Payment – Illustration

Mrs. Smith’s example is continued below from Page 11.

If Mrs. Smith had made a **partial payment** of \$2,000 on her balance of \$3,000 on January 20, **well in advance of the due date** of February 19, **she would have saved approximately \$12 in interest** on her February statement, assuming an annual percentage rate (APR) of 18.5%. The daily percentage rate of 0.05068%, shown in the calculations below, is the APR divided by the number of days in the year (i.e., 18.5% ÷ 365).

These calculations have been abbreviated, for simplicity. See Appendix 2 for the detailed calculations.

	No Early Payment (Using Average Daily Balance Method)	Early Credit Card Payment of \$2,000 (Using Average Daily Balance Method)
Jan. 1 to Jan. 4 – No transactions	\$0 for 4 days	\$0 for 4 days
Jan. 5 to Jan. 19	\$0 + \$3,000 purchase of Jan. 5 = \$3,000 for 27 days	\$0 + \$3,000 purchase of Jan. 5 = \$3,000 for 15 days
Jan. 20 to Jan. 31		\$3,000 - \$2,000 payment of Jan. 20 = \$1,000 for 12 days
Calculation of Average Daily Balance	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 27 \text{ days})$ 31 days in the billing period = Average daily balance of \$2,612.90	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 15 \text{ days}) +$ $(\$1,000 \times 12 \text{ days})$ 31 days in the billing period = Average daily balance of \$1,838.71
Total Interest Charged	Average daily balance x Daily percentage rate x Number of days in the billing period = \$2,612.90 x 0.05068% x 31 days = \$41.05	Average daily balance x Daily percentage rate x Number of days in the billing period = \$1,838.71 x 0.05068% x 31 days = \$28.89
Total Interest Saved	\$0	\$12.16

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
- Do you understand the **terms and conditions** of the introductory offer (if any):
 - when the introductory period ends
 - what happens to your interest rate at the end of the introductory period
 - whether there are any other fees or conditions that apply to the offer
 - whether the introductory rate period will suddenly come to an end if you make a late payment or exceed the credit card limit, and if so, what the new applicable rate would be
- 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 card 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 cannot pay your balance off in full, transfer the balance to another form of credit that has a lower annual percentage rate (APR), such as a **line of credit**. If you do this every month, you will always benefit from the grace period on your card.
- 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 early payments between statements will save you interest charges.**
- **Minimize cash advances**, since interest is charged from the day you borrow until the advances are paid in full.
- Allow enough time for your payment to reach your credit card company.
- Take advantage of **pre-authorized payment** options to ensure your monthly payments are paid from your savings/chequing account by the due date. However, keep track of these payments to ensure there is enough money to cover all withdrawals from your account.
- **Monitor your monthly billings** or other **mailings for notices of fee increases or rule changes** by your credit card company.

Glossary

Annual Fee: 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 purchases not benefitting from the grace period. For cash advances or balance transfers, the APR is charged from the day the funds are withdrawn (i.e., there is no grace period).

Balance Transfer: Transfer of outstanding credit card balances from one card to another, usually between different institutions. Interest is usually charged by the new card issuer from the day the amount is transferred to the new card (i.e., there is no grace period).

Bank of Canada Rate or Bank Rate: 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 indirectly affect mortgage rates, and the interest paid to consumers on bank accounts, Guaranteed Investment Certificates (GICs) and other savings.

Cash Advance: Withdrawal of funds from your credit card up to the credit limit allowed. May be subject to daily limits. Interest is charged from the day the funds are withdrawn (there is no grace period).

Delinquent Account (90 days and over): Credit card account overdue by at least 90 days because the minimum payment was not made by the due date.

Federal Funds Rate (U.S.): Interest rate at which U.S. depository institutions lend funds from the Federal Reserve to other depository institutions overnight.

Fraudulent Account: Credit card account that is used for activities intended to deceive or mislead.

Grace Period: The grace period represents the time period between the statement date and the payment due date, and is provided by the credit card issuer. The grace period usually varies between 19 and 26 days and is a component of the interest-free period. The grace period could apply if certain conditions are met.

Interest-Free Period: The interest-free period on new purchases represents the time you have from the day you make a purchase to when the credit card issuer begins charging you interest on that purchase. The interest-free period includes the grace period provided by the credit card issuer, and could apply if certain conditions are met.

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.

Prime Rate: The interest rate a financial institution charges on loans to its best customers.

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

Appendix 1

Average Daily Balance and Daily Balance Methods – Detailed Illustration

The following table provides a detailed explanation of the example on Page 11.

	Average Daily Balance Method	Daily Balance Method
January 1	Daily Balance: \$0	$\$0 \times (0.05068\%) \times 1 \text{ day} = \0
January 2	Daily Balance: \$0	$\$0 \times (0.05068\%) \times 1 \text{ day} = \0
January 3	Daily Balance: \$0	$\$0 \times (0.05068\%) \times 1 \text{ day} = \0
January 4	Daily Balance: \$0	$\$0 \times (0.05068\%) \times 1 \text{ day} = \0
January 5 – Purchase of \$3,000	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 6	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 7	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 8	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 9	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 10	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 11	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 12	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 13	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 14	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 15	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 16	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 17	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 18	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 19	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 20	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 21	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 22	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 23	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 24	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 25	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 26	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 27	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 28	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 29	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 30	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
January 31	Daily Balance: \$3,000	$\$3,000 \times (0.05068\%) \times 1 \text{ day} = \1.52
Average daily balance	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 27 \text{ days})$ 31 days in the billing period = Average daily balance of \$2,612.90	NOT APPLICABLE
Total interest charged	Average daily balance x Daily percentage rate x Number of days in the billing period = $\$2,612.90 \times 0.05068\% \times 31 \text{ days}$ = \$41.05	$(\$0 \times 4 \text{ days}) + (\$1.52 \times 27 \text{ days})$ = \$41.05

Appendix 2

The Benefits of Making an Early Credit Card Payment – Detailed Illustration

Based on the Average Daily Balance Method of Interest Calculation

The following table provides a detailed explanation of the example on Page 12.

	No Payment Made During the Month	Early Payment of \$2,000 on January 20
January 1	Daily Balance: \$0	Daily Balance: \$0
January 2	Daily Balance: \$0	Daily Balance: \$0
January 3	Daily Balance: \$0	Daily Balance: \$0
January 4	Daily Balance: \$0	Daily Balance: \$0
January 5	Purchase of \$3,000 Daily Balance: \$3,000	Purchase of \$3,000 Daily Balance: \$3,000
January 6	Daily Balance: \$3,000	Daily Balance: \$3,000
January 7	Daily Balance: \$3,000	Daily Balance: \$3,000
January 8	Daily Balance: \$3,000	Daily Balance: \$3,000
January 9	Daily Balance: \$3,000	Daily Balance: \$3,000
January 10	Daily Balance: \$3,000	Daily Balance: \$3,000
January 11	Daily Balance: \$3,000	Daily Balance: \$3,000
January 12	Daily Balance: \$3,000	Daily Balance: \$3,000
January 13	Daily Balance: \$3,000	Daily Balance: \$3,000
January 14	Daily Balance: \$3,000	Daily Balance: \$3,000
January 15	Daily Balance: \$3,000	Daily Balance: \$3,000
January 16	Daily Balance: \$3,000	Daily Balance: \$3,000
January 17	Daily Balance: \$3,000	Daily Balance: \$3,000
January 18	Daily Balance: \$3,000	Daily Balance: \$3,000
January 19	Daily Balance: \$3,000	Daily Balance: \$3,000
January 20	Daily Balance: \$3,000	Early Payment of \$2,000 Daily Balance: \$1,000
January 21	Daily Balance: \$3,000	Daily Balance: \$1,000
January 22	Daily Balance: \$3,000	Daily Balance: \$1,000
January 23	Daily Balance: \$3,000	Daily Balance: \$1,000
January 24	Daily Balance: \$3,000	Daily Balance: \$1,000
January 25	Daily Balance: \$3,000	Daily Balance: \$1,000
January 26	Daily Balance: \$3,000	Daily Balance: \$1,000
January 27	Daily Balance: \$3,000	Daily Balance: \$1,000
January 28	Daily Balance: \$3,000	Daily Balance: \$1,000
January 29	Daily Balance: \$3,000	Daily Balance: \$1,000
January 30	Daily Balance: \$3,000	Daily Balance: \$1,000
January 31	Daily Balance: \$3,000	Daily Balance: \$1,000
Average daily balance	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 27 \text{ days})$ 31 days in the billing period = Average daily balance of \$2,612.90	$(\$0 \times 4 \text{ days}) + (\$3,000 \times 15 \text{ days}) +$ $(\$1,000 \times 12 \text{ days})$ 31 days in the billing period = Average daily balance of \$1,838.71
Total interest charged	Average daily balance x Daily percentage rate x Number of days in the billing period = $\$2,612.90 \times 0.05068\% \times 31 \text{ days}$ = \$41.05	Average daily balance x Daily percentage rate x Number of days in the billing period = $\$1,838.71 \times 0.05068\% \times 31 \text{ days}$ = \$28.89
Total interest saved because of early prepayment of \$2,000	\$0	\$12.16