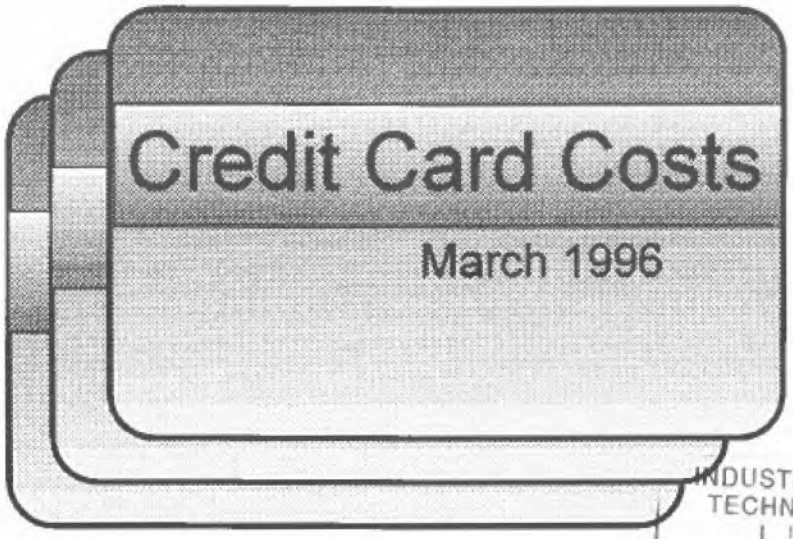

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+ Credit Card Interest Rates Fall

+ Spread Between Card Rates and Bank Rate Still High

+ Compare the Cost of Canada's Basic Credit Cards

+ Interest Rates Are Not the Whole Story

Compiled by the Office of Consumer Affairs of Industry Canada from information given by card issuers, and accurate as of March 15, 1996.

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Canada

Consumer Advisory

Rates Fall but Spread Remains High

Visa and Mastercard **interest rates** have started to fall. Six banks announced lower interest rates for March 1, with an average decrease of almost one percentage point in five standard cards and one half of a percentage point in one low rate option card. The present range of Visa and MasterCard rates is 16.75% to 18.90% for standard cards and 11.75% to 13.50% for low rate option cards. Most of the Visa cards are on the lower end of these ranges while most of the MasterCards are on the higher end.

The **spread** between credit card rates and the Bank rate remains high in spite of this quarter's decrease in some rates. The Bank rate is currently at 5.5%, making the current spread 12 percentage points for a representative Visa card. The average spread between 1990 and 1996 has been approximately 10.5 percentage points.

Choosing the Right Card: A Matter of Balancing Rates and Fees

Some banks have eliminated their **annual fees**, either instead of or in addition to dropping their interest rates. The elinination of annual fees might have the same effect as lowering interest rates. For example, dropping a $12 annual fee is equivalent to reducing the interest rate by .8 percentage points on an outstanding annual balance of $1500 (the average outstanding balance of Visa cardholders who pay interest charges).

Some banks offer the choice between standard cards and **lower interest rate options**. However, the lower rate option cards often have higher annual fees, so it may be necessary to determine the "break-even" outstanding balance which makes the higher fee on the low rate option worthwhile. If your annual outstanding balance is low, you are not paying a lot in interest charges anyway, so the interest rate is not as important. It is then preferable to minimize the annual fee instead. For those who routinely carry outstanding balances higher than those given in the chart*, a low rate card is better, while for outstanding balances routinely lower than those shown, a standard card is better. It should be noted that these balances do not take into account any other terms and conditions of credit cards (such as air mileage points).

	Standard Card		**Low Rate Card**		**Break-Even Outstanding Balance ($)**
	Rate	*Fee*	*Rate*	*Fee*	
Nat. Trust	16.75	0	11.75	30	600
Bk. of N.S.	17.75	8	12.90	29	433
Royal Bk.	17.50	0	13.50	25	625
Bk of Mont.	18.90	0	12.25	18	271
TD Bk.	17.75	12	12.90	12	0

* formula used to calculate break-even balances is given by: (low option fee) + (low option rate)X(outstanding balance) = (standard card fee) + (standard card rate) X (outstanding balance)

Visa and MasterCards*

Card Issuer	Fees ($ annual)	Interest Rates (% annual)	Grace Period (days)	Interest Calculated from Date of Purchase
MasterCard				
Bank of Montreal				
Standard	--	18.90	21	x
Prime +	18	12.25	0	x
Air Miles Reward	35	18.90	21	x
Canada Trust	8[1]	18.00	21	x
CS CO-OP	--	18.90	21	x
National Bank	--	18.90	21	x
National Trust				
Basic	--	16.75	21	x
Low Interest Option	30	11.75	21	x
Niagara Credit Union	--	18.25	21	x
Canadian Tire	--	18.90	21	x
VISA				
Bank of Nova Scotia				
Standard	8	17.75	21	x
Value Visa	29	12.90	21	x
CIBC				
Standard	--	17.50	21	x
Ford Visa	--	18.50	21	x
Club Z	--	18.50	21	x
Confédération des caisses populaires et d'économie Desjardins du Québec	--	17.50	21	x
Laurentian Bank	--	17.50	21	x
Royal Bank				
Standard	--	17.50	21	x
Option	25	13.50	21	x
Toronto-Dominion Bank				
Standard	12[1]	17.50	21	x
GM Card	--	18.50	21	x
Emerald Card	12[1]	12.90	0	x
Vancouver City Savings	0	17.50	21	x

* As of March 15, 1996. Since credit card terms and conditions may change, you should contact card issuers directly for the latest information.

[1] Under certain conditions, fee may be reduced or waived entirely.

Other Credit Cards

Card Issuer	Fees ($ annual)	Interest Rates (% annual)	Grace Period (days)	Interest Calculated from	
				Date of Purchase	Date of Statement
Canadian Tire	--	28.8	30		x
Eaton's	--	28.8	30		x
Home Card	--	28.8	30		x
Hudson's Bay	--	28.8	25-30		x
Imperial Oil (Esso)	--	24.0	30		x
Petro-Canada	--	24.0	30	x	
Sears	--	28.8	25-30		x
Simpsons	--	28.8	25-30		x
Zellers	--	28.8	25-30		x

Charge Cards*

Card Issuer	Fees ($ annual)	Late Penalty Rates/Delin-quency Rate (% annual)	Grace Period (days)	Late Penalty Calculated from	
				Date of Purchase	Date of Statement
American Express	55	30	30		x
Diners Club/enRoute	65	30	30-60		x
Irving Oil	--	24	25		x

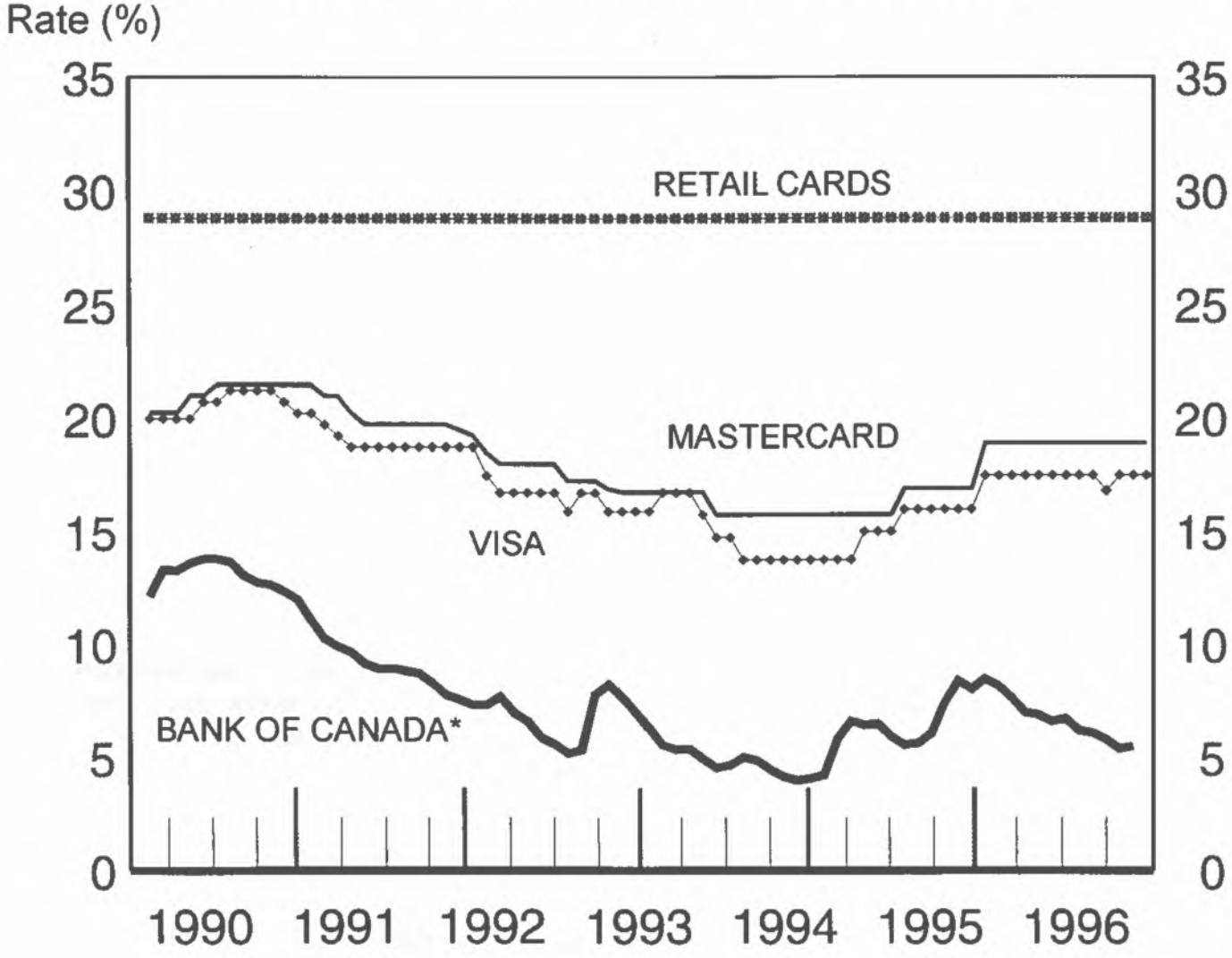
* As of March 15,1996. Since credit card terms and conditions may change, you should contact card issuers directly for the latest information.

Definitions

Credit Cards: Cards that provide revolving credit. Minimum monthly payments are required.
Charge cards: Cards requiring payment in full each month.
Fees: Charges such as transaction fees, administration fees or annual fees.
Interest/Penalty Rate: The nominal annual rate at which interest or penalty payments are calculateGrace Period: The number of days between the statement date and the payment due date.

CREDIT CARD RATES

AND THE BANK OF CANADA RATE



- Bank of Canada rate is end-month to end-Februrary 1996.
- One Visa and one MasterCard issuer was selected as an example. Rates of other card issuers may vary.

* The Bank of Canada rate is the rate at which banks can borrow money from the Central Bank. It is seen as an indicator of the direction of other short term rates, such as those for consumer loans.

Terms and Conditions

Remember these facts and save money:

Bank, Trust Company and Credit Union Cards

- Interest is charged daily. So, if you make payments between statements, you save money.

- Interest is charged on cash advances from the day you borrow until they are paid in full.

- Interest is not charged on purchases showing up on your statement for the first time if the entire statement balance is paid by the due date.

And don't forget:

- When the balance is not paid in full by the due date, interest is charged on the daily balance from the date purchases have been posted to the account until it is paid in full.

Other Credit Cards

- In most cases you pay less interest if you pay off at least half the balance each month. Retail stores (except in Quebec), subtract payments equal to 50% or more of the balance from the balance on the statement before charging interest. In Quebec, interest is calculated daily so in that province, you save money if you make payments between statements.

- Interest is compounded, so if you miss a payment, the next month you will pay interest on the balance plus interest. For example, at the current rate of 2.4% per month, one month's interest on $100.00 is $2.40. If no payment is made on this at all, the next month's interest will be charged on $102.40 and will amount to $2.47.

Charge Cards

- Irving Oil calculates penalties on the outstanding daily balance.

- The American Express and Diners Club/enRoute account balances are due on receipt of statement. A delinquency assessment equal to 30% per annum is charged on unpaid balances. Cards are cancelled if balances remain unpaid.