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Credit Card Costs

September 1998

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Compiled by the Office of Consumer Affairs of Industry Canada from information given by card issuers and accurate as of September 1, 1998.

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Consumer Advisory

Interest Rate Changes

There have been a number of changes in standard Visa card rates in recent months, apparently in response to increases in the Bank of Canada rate. CIBC increased the rate on its classic visa card from 16.50% to 17.50% in June 1998. In August 1998, the Royal Bank also increased the rate on its standard card from 16.50% to 17.50%. Scotiabank and Vancouver City Savings recently announced that rates for their standard cards would also rise to 17.50%, from 16.75% and 16.50% respectively, effective October 1, 1998. Interest rates on low rate cards have not increased. Among Canadian credit cards, the spread of Visa and MasterCard interest rates now ranges between 9.25 and 18.90%. In addition, since June 1998 the Bank of Montreal low rate option MasterCard carries a rate of 8.90% on cash advances and Mastercard cheques below the 12.90% rate charged for credit card purchases.

The Bank of Canada rate increased from 5.0% to 6.0% effective August 27, 1998. The spread between the sample standard Visa card tracked by Industry Canada and the Bank of Canada rate remains a high 11.5 points. The spread between standard credit cards and the Bank of Canada remains a high 11.5 points, while the spread for low rate cards is below 4%.

New U.S. Entrants to Canadian Credit Card Market

MBNA Canada Bank which began operations in Canada in November of 1997, is owned by the MBNA Corporation based in Wilmington, Delaware, and is the world's second largest credit card marketer. It is a monoline bank whose primary business is lending through MasterCard credit cards. The bank does not have branches in Canada, but does have two administrative offices in Ottawa and Montreal.

MBNA is currently test marketing its services through direct marketing campaigns. It has also signed up a number of different organizations, including Ducks Unlimited Canada, the Canadian Nurses Association, the University of Manitoba, and others, on whose behalf it offers affinity cards (credit cards that bear the issuing bank's name along with the name of another organization that the credit card holder wants to help out financially). MBNA offers potential credit card holders a range of credit card packages, with varying interest rates, through both its direct marketing and affinity card options. It does not offer a low rate card.

Bank One International, a division of First USA, which is the credit card division of Bank One Corporation plans to open an operations centre in Ottawa, and a business development office in Toronto this fall. It has announced plans to begin marketing Visa credit cards in Canada under the trade name Bank One International, and also plans to offer affinity cards.

Capital One Finance Corp. of Falls Church, Virginia, was a forerunner among U.S. card issuers entering Canada. It began test marketing MasterCard credit cards here almost two years ago, and has placed an emphasis on direct marketing in order to attract customers.

The new entrants typically advertise a low initial rate (in the 7% to 9%) range for the first six months followed by a rate comparable with that of existing Canadian Visa and MasterCard issuers.

Choosing a New Credit Card

Consumers should keep in mind the need to assess thoroughly any credit card offer that may be extended to them. It is crucial to review any credit card contract in its entirety prior to signing. Particular attention should be paid to all cost information including any fees charged for late payment, exceeding credit limits, or cash advances. You should also check the wording in your credit card agreement regarding the use of personal information. Lastly, in the case of affinity cards you should check what proportion of each purchase amount goes to the organization sponsoring the card.

General Credit Cards (as of September 1, 1998)

Card Issuer	Annual Fee	Interest Rate	Grace Period	Interest Calculated from Date of Purchase
MasterCard	\$	%	Days	
Bank of Montreal Standard	0	18.40	23	x
Basic	0	15.40	19	x
Low Rate Option- for retail purchases	15	12.90	23	x
-for cash advances/MasterCard cheques	15	8.90	23	x
Canada Trust	8 ²	17.90	21	x
Gold ¹	39	11.90	21	x
CS CO-OP	0	18.40	21	x
National Bank Standard	0	18.40 ³	21	x
Economic Option	12	14.00	21	x
Low Rate Option	30	9.25	21	x
Niagara Credit Union	0	17.50	21	x
Low Rate Option	25	9.25	21	x
Canadian Tire	0	18.90	21	x
VISA				
Scotiabank Standard	8	17.50 (Oct. 1/98)	21	x
Value Visa	29	9.25	25	x
CIBC Classic	0	17.50	21	x
Select Visa	29	9.9	17 ⁴	x
Desjardins Standard	0	17.00(Sept. 30/98)	21	x
Low Rate Option	25	9.50	21	x
Laurentian Bank	0	17.50	21	x
Reduced Rate Option	24	9.50	21	x
Royal Bank Standard	0	17.50	21	x
Low Rate Option	25	9.50	21	x
TD Bank Standard	0	17.50	21	x
Emerald Visa	12 ²	9.25	0	x
Vancouver City Savings	0	17.50 (Oct. 1/98)	21	x
American Express				
Standard	0	9.9 (6 months) 14.95 (Preferred) 18.25 (Standard)	21	x
Optima	15	16.95	21	x

¹ Because this is a gold card, a minimum of \$40,000 per annum income is required to qualify.

² Under certain conditions, fee may be reduced or waived entirely.

³ According to the results of credit analysis, the rate may be different.

⁴ 21 days in B.C. and Quebec.

Other Credit Cards

Card Issuer	Fees (\$ annual)	Interest Rates (% annual)	Grace Period (days)	Late Payment Fees	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	x	
Petro-Canada	--	24.0	30	x	x	
Sears	--	28.8	25-30			x
Simpsons	--	28.8	25-30			x
Zellers	--	28.8	25-30			x

Charge Cards*

Card Issuer	Fee (\$ 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	52-60		x
Irving Oil	--	24	25	x	

* As of September 1, 1998. 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.

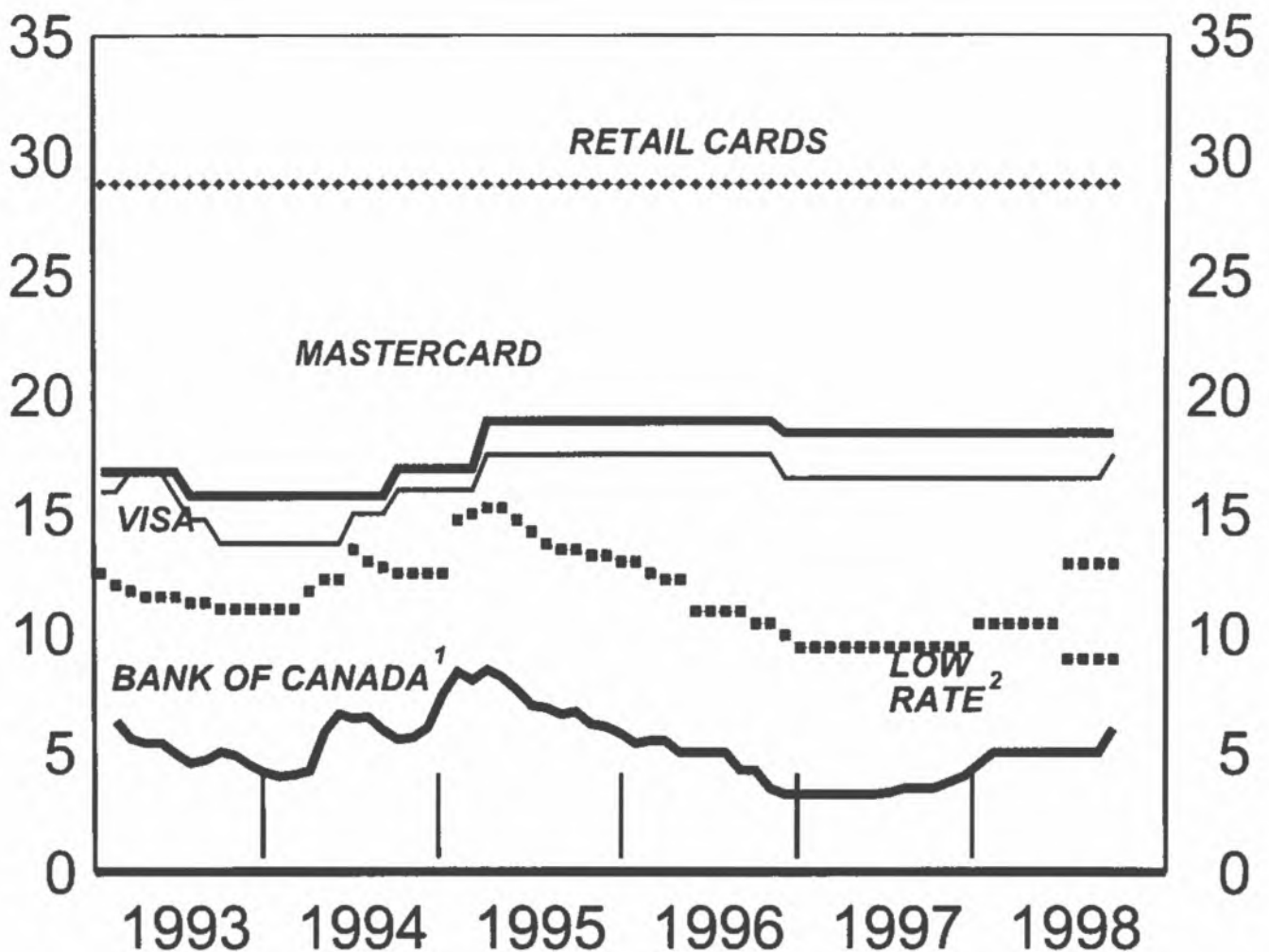
Interest/Penalty Rate: The nominal annual rate at which interest or penalty payments are calculated.

Grace Period: The number of days between the statement date and the payment due date.

Late payment fees: A late payment fee will be charged, if the minimum monthly payment is not made by the due date.

Credit Card Rates and the Bank of Canada Rate

Rate (%)



- One Visa, one MasterCard, and one Low Rate Card issuer are used as examples. Rates of other cards vary.

1. The Bank of Canada rate is the rate at which banks can borrow money from the Central Bank.

2. The Low Rate card used as the example is the Bank of Montreal Low Rate Option which since June 1998 is offering a split rate of 8.90% on cash advances/Mastercard cheques and 12.90% on retail purchases instead of the old 10.4% rate.

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.