



## Credit Card Costs

July 1999

- \* Low Rate Cards - Some Interest Rates Rise ;  
Bank of Montreal Introduces New Fees
- \* Some Alternatives in Consumer Borrowing

Compiled by the Office of Consumer Affairs of Industry Canada from information given by card issuers and accurate as of July 15, 1999.

Information : David Waite (613) 952-8019

To get copies of this bulletin in your region, contact:

Atlantic	Alison McDermott	(902) 426-9472
Quebec	Claude Valiquette	(514) 496-1797
Ontario	Heather Mackenzie-Scott	(416) 973-5044
Prairies	Lydia Shevchuk	(204) 983-2826
Pacific	Nicole LeMire	(604) 666-1404

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## Consumer Advisory

### Low Rate Cards - Some Interest Rates Rise ; Bank of Montreal Introduces New fees

Four banks have increased the interest rates for their low rate cards in recent months. Scotiabank increased the rate for its low rate Value Visa from 9.25% to 9.9%, and the Royal Bank increased the interest rate for its low rate option Visa from 9.5% to 10.50% both effective May 1, 1999. Toronto-Dominion bank increased the rate on its low rate Emerald Visa from 8.99% to 9.9%, effective May 30, 1999. Finally, the National Bank increased the interest rate on its low rate option MasterCard from 9.25% to 9.5% , effective June 6, 1999.

The Canadian Bankers Association has advised us that several factors have contributed to each bank's decision to increase their interest rates. The key factors driving interest rate increases include higher loan losses due to bankruptcies, fraud and default, higher operational costs and an increase in the cost of funds since the last interest rate change. Specifically, none of the large bank issuers referred to above have increased their low rate card rates in the period during which the Bank of Canada increased its rate from 3.25% in early 1997 to the current level of 4.75%.

Also, the Caisses Desjardins increased the interest rate on its standard card from 17.00% to 17.50%, effective May 1, 1999. The current range of interest rates now stands at 9.25% to 12.90% for low rate cards and 17.50% to 18.90% for standard cards.

The Bank of Canada rate dropped to 4.75% on May 4, 1999 from 5.25%, and it has remained at that level since that date. This has increased the spread between the standard Visa credit card tracked by Industry Canada and the Bank of Canada rate from 12.25 points to 12.75 points. The spread between the Bank of Canada rate and low rate cards is now between 4.5 points and 8.15 points.

Meanwhile, the Bank of Montreal has introduced a number of new fees which apply to use of its MasterCards. Effective August 1<sup>st</sup>, fees will apply to each cash advance as follows: \$1.50 for advances from Bank of Montreal ATMs, \$2.75 from other Interac ATMs (up from \$1.00) \$3.50 from ATMs in the U.S. (up from \$2.00) and \$4.50 from ATMs elsewhere in the world (up from \$2.00); while over the counter cash advances will range from \$3.00 from a Bank of Montreal branch to \$6.00 from a MasterCard financial institution outside Canada and the U.S. (no fees applied previously). Bank of Montreal has also become the first major Canadian financial institution to charge an over limit credit card fee (\$10.00), though these fees are charged by the new U.S. credit card issuers offering their products in Canada. Consumers should also remember that cash advances on any Visa or MasterCard accrue interest from the date of the transaction, regardless of whether the entire balance on a statement is paid at the end of the month.

### Some Alternatives in Consumer Borrowing

While Canadian consumers have continued to use increasing numbers of Visa and MasterCard credit cards through the years to finance their purchases, borrowing alternatives do exist in the marketplace. Some of these are outlined below :

One alternative may be a line of credit. It can be either secured, meaning that it is backed by assets (e.g. equity in a consumer's home) or unsecured. With an unsecured line of credit the borrower usually gets monthly statements and must make minimum payments against the outstanding balance, plus interest, much like a credit card. Interest rates are higher for unsecured lines of credit than for secured ones by up to 3 percentage points. Interest rates on secured lines of credit are often close to the prime rate. Both unsecured and secured lines of credit may offer a cheaper alternative to financing purchases than standard and low rate credit cards. To see if it is to their advantage to use this alternative to finance outstanding balances, consumers should inquire at their bank, trust company, or credit union as to the specific terms and conditions related to such lines of credit.

Also, the number of issuers of Visa and MasterCard credit cards is expanding. Capital One Finance Corp., MBNA Canada Bank, and Bank One International are three U.S. entrants now operating in the Canadian credit card market. They typically advertise a low initial rate (in the 5.9% to 9% range) for the first six months followed by a rate comparable to that of existing Canadian Visa and MasterCard issuers. However, there may be some differences in the terms and conditions for these cards as compared to what Canadian banks offer. As a result consumers should keep in mind the need to assess thoroughly any

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credit card offer that may be extended to them and be aware of any new types of fees (i.e. over-limit fee, late payment fee, etc.).

Alternatives to traditional methods of borrowing have opened up a number of new opportunities for consumers. Regardless of this, consumers should always review any contract related to borrowing in its entirety before signing. Particular attention should be paid to all cost information, and wording in contracts related to the use of personal information.

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## General Credit Cards (as of July 15, 1999)

Card Issuer	Annual Fee (\$)	Interest Rate (%)	Grace Period (Days)	Interest Calculated from Date of Purchase
<b>MasterCard</b>				
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 <sup>2</sup>	17.90	21	x
Gold <sup>1</sup>	39	11.90	21	x
CS CO-OP	0	18.40	21	x
National Bank Standard	0	18.40 <sup>3</sup>	21	x
Economic Option	12	14.00	21	x
Low Rate Option	30	9.50	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
<b>VISA</b>				
Scotiabank Standard	8	17.50	21	x
Value Visa	29	9.90	25	x
CIBC Classic	0	17.50	24	x
Select Visa	29	9.90	24	x
Desjardins Standard	0	17.50	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	10.50	21	x
TD Bank Standard	0	17.50	21	x
Emerald Visa	12	9.90	0	x
Vancouver City Savings	0	17.50	21	x
<b>American Express</b>				
Standard	0	9.9 (6 months) 14.95 (Preferred) 18.25 (Standard)	21	x
Optima	15	17.95	21	x

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

<sup>2</sup> Under certain conditions, fee may be reduced or waived entirely.

<sup>3</sup> According to the results of credit analysis, the rate may be different.

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## 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
Zellers	--	28.8	25-30			x

\* The Simpsons card was amalgamated into the Hudson's Bay portfolio in September 1998 and no longer exists as a separate entity.

## Charge Cards\*

Card Issuer	Fee (\$ annual)	Late Penalty Rates/ Delinquency 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 July 15, 1999. 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.

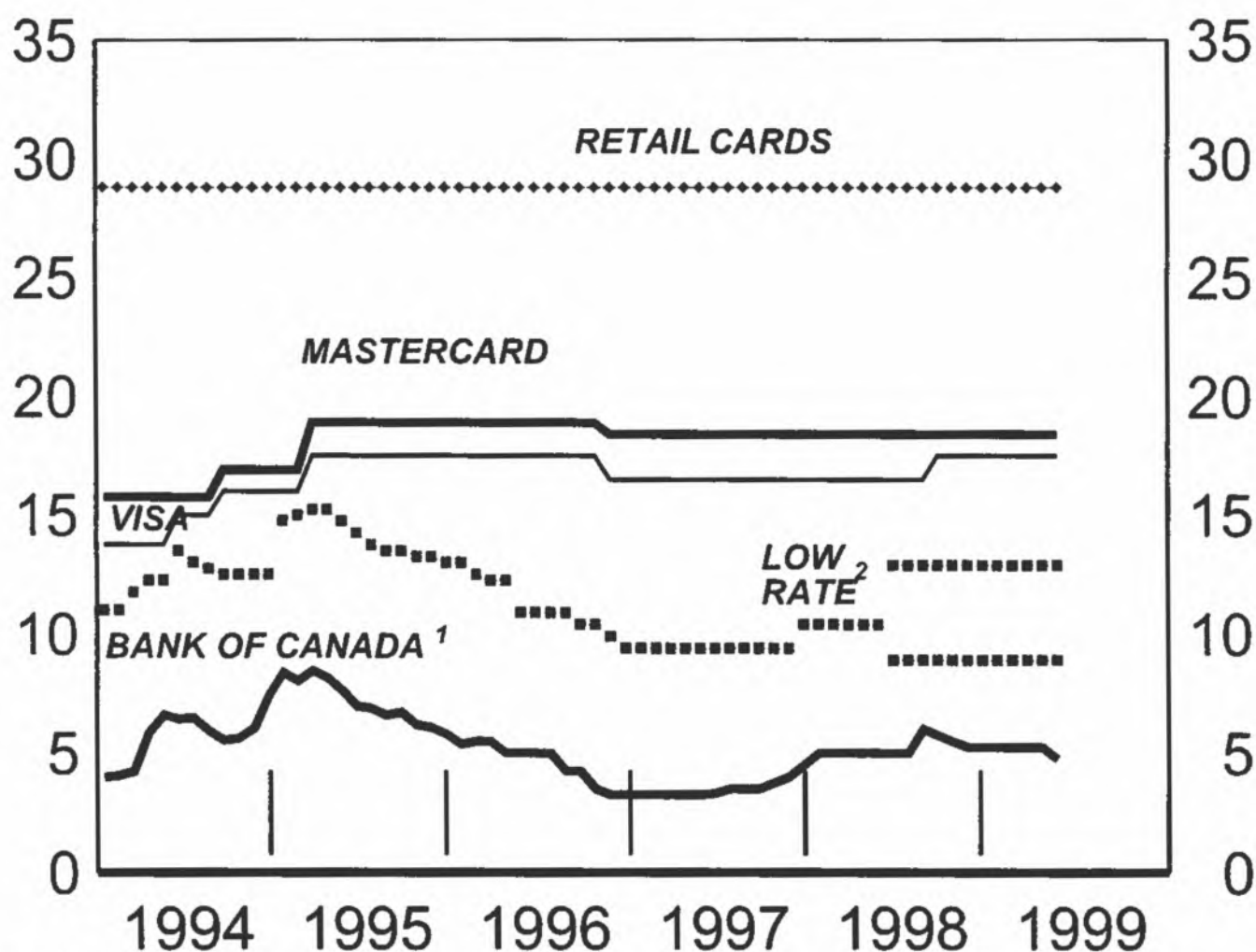
**Grace Period:** The number of days between the statement date and the payment due date.

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

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## 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.

