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Credit Card Costs Report

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Credit Cards - Rate Changes, Changing Lending Practices & Changes in the Credit Card Industry

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For information: David Waite (613) 952-8019

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

Atlantic:	Raymond Provencher	(902) 426-9905
Québec:	Claude Valiquette	(514) 283-7261
Ontario:	Heather MacKenzie-Scott	(416) 973-5044
Prairies/NWT:	Lydia Shevchuk	(204) 983-2826
Pacific/Yukon:	Aurora Opazo Saez	(604) 666-1404

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Consumer Advisory

Interest Rate Changes

There have been a number of changes in the bank rate over the past few months. The **Bank of Canada** raised the Bank Rate $\frac{1}{4}$ of one percentage point (to $5\frac{1}{2}\%$) on March 22, 2000. A further increase of 50 basis points occurred on May 17, 2000, raising the Bank Rate to 6.0% – its highest rate in almost two years. Each increase by the Bank of Canada came one day after the **Federal Reserve** in the U.S. announced a rate increase of the same magnitude. At its last meeting on June 28, the U.S. Federal Reserve's Open Market Committee opted to leave interest rates unchanged in the U.S. However, at this meeting, the Fed adopted an official policy bias towards increasing interest rates in the future if inflationary pressures do not subside. The Fed next meets on August 22.

There have also been several increases in interest rates in the credit card industry. Effective May 1, 2000, **Vancouver City Savings** raised the standard rate to 17.9% (from 17.5%) and its low rate to 10.5% (from 9.9%). In addition, the standard rate will be further raised to 18.5% effective August 1st, while the low rate will remain at 10.5%. Effective June 1, 2000, the **Scotiabank** raised its standard rate to 18.5% (from 17.5%) and its low rate increased to 10.5% (from 9.9%). In addition to these interest rate changes, the Scotiabank also increased the grace period on all its cards (from a range of 21 to 25 days) to 26 days. **CIBC** increased the standard (classic) rate to 18.5% (from 17.5%) and the low (select) rate to 10.5% (from 9.9%). Effective July 1, **Desjardins** increased the standard rate to 18.9% (from 17.9%), while the low rate remains unchanged at 10.9%. Effective July 1, 2000 the standard rate at the **Bank of Montreal** increased to 18.9% (from 18.4%) and the low rate option for cash advances/MasterCard cheques will increase to 9.90% (from 8.9%). Effective with July statements, the standard rate will increase to 18.5% (from 17.5%) at **TD Bank**, while the low (emerald) rate will increase to 10.9% (from 9.9%). Finally, **American Express** has announced that effective September 1, 2000 the preferred rate will increase to 17.99% (from 16.99%) and the optima rate will increase to 18.99% (from 17.95%). Thus far in 2000, only 6 institutions have not increased their interest rate: **Canada Trust MasterCard**, **CS-Co-op MasterCard**, **Niagara Credit Union MasterCard**, **Canadian Tire MasterCard**, **Laurentian Bank Visa** and the **Royal Bank Visa**.

Changing Lending Practices

In December 1999, **Royal Bank** became the first Canadian institution to charge a split rate of interest on its basic credit card. Since this time, the Royal Bank Visa charges 17.9% for purchases and 18.5% for cash advances. Currently, the **Bank of Montreal** and the **National Bank** offer split rates of interest on their basic low option cards.

Effective June 1, 2000, **Scotiabank** announced a change in the structure of its Visa interest charges. Visa customers are now normally charged a "preferred" interest rate – which is the rate of interest currently disclosed on their monthly Visa statement. However, in the event that an account becomes two payments past due, a "standard" interest rate, which is 3% higher than the "preferred" rate, comes into effect. The higher standard rate remains in effect until such time that the account has gone six consecutive months without being in arrears.

In the last few years, a number of newcomers to the Canadian credit card market from the US have been active in direct marketing programs in Canada. These companies commonly offer consumers a limited-time, low introductory interest rate offer (often at more than 10% below their regular rates) for cash advances and balance transfers. Unlike traditional Canadian operators, some of these companies (e.g. MBNA Canada and Capital One) charge varying levels of interest to different consumers. While MBNA Canada was unable to provide data in time for this release, a combination of examples from their direct marketing campaigns and reports from consumer contacts suggest that the range of interest rates charged to Canadian consumers is between 16.99% to 19.98%.

Changes in the Credit Card Industry

Effective April 27, all **Esso** personal credit cards became invalid – this business was turned over to **Royal Bank**. Royal Bank's Esso Visa offers card holders all of the previous benefits of the Esso card. In addition, the Royal Bank Esso Visa also offers customers a lower interest rate (currently 15.9% for purchases and 18.9% for cash advances and cheques). It is worth noting that the interest rate for Royal Bank's Standard card is 17.9% for purchases (2.0% higher than the Esso Visa) and 18.5% for cash advances (slightly lower than the Esso Visa rate). Both cards have no annual fee.

On May 18, 2000, **Royal Bank** announced that it had purchased the Canadian retail credit card business of **Bank One Corporation**. Bank One, headquartered in Chicago, had entered the Canadian retail market late in 1998. Royal Bank intends to integrate Bank One's credit card business into its existing cardholder base.

In early June, **Citibank Canada** announced its intention to purchase **Canada Trust's** consumer MasterCard business from the **T.D. Bank**. This deal, subject to regulatory approval, is set to close in late July. It was further announced that Citibank Canada will convert all of its existing Visa credit card offerings to MasterCard. It is estimated that the Canada Trust's MasterCard portfolio has about \$1.8 billion in loans, with at least one million customers.

Meanwhile in the U.S., **Visa** and **MasterCard** are facing anti-trust proceedings from the U.S. Department of Justice – in part because, unlike in Canada, a U.S. bank can offer both Visa and MasterCard products. The lawsuit claims that Visa and MasterCard violated antitrust law. Specifically, the U.S. government argues that large banks control both Visa and MasterCard (i.e., Visa and MasterCard operate as a duality) and that they limit competition through an exclusivity agreement (i.e. Visa and MasterCard member banks are not permitted to issue any other credit cards, such as American Express or the Discovery Card). It is estimated that Visa and MasterCard control about 75% of the credit card market in the United States.

In addition to the antitrust case, **Visa** and **MasterCard** are also facing a class action lawsuit in the United States. At issue is a rule that requires merchants who accept Visa and MasterCard credit cards to also take all other forms of payment (i.e., debit cards) with the Visa and MasterCard brand name. At issue is whether Visa and MasterCard are using their dominance in the credit card market to force retailers to pay excessively high fees for debit transactions.

General Credit Cards¹

Card Issuer	Annual Fee	Interest Rate	Grace Period
MasterCard	\$	Annual %	Days
Bank of Montreal Standard	--	18.90	19
Basic	--	15.90	19
Low Rate - Retail	15	13.90	23
Low Rate - cash advances, MC Cheques	15	9.90	23
Canada Trust	8	17.9	21
CS CO-OP	--	18.4	21
National Bank Standard	--	18.40	21
Low Rate - Cash Adv. / Balance Transfers	15	8.90	21
- Purchases		13.90	21
Niagara Credit Union	--	17.50	21
Low Rate Option	25	9.25	21
Canadian Tire	--	18.9	21
VISA			
Scotiabank no-fee Standard	--	18.99	26
Scotiabank Standard	8	18.50	26
Value Visa	29	10.50	26
CIBC Classic	--	18.50	24
Select Visa	29	10.50	24
Caisses Populaires Desjardins Classic	--	18.90	21
Low Rate Option ²	25	10.90	21
Laurentian Bank	--	17.99	21
Reduced Rate Option	24	9.50	21
Royal Bank Standard - Purchases	--	17.90	21
Royal Bank Standard - Cash Advances	--	18.50	21
Low Rate Option	25	10.50	21
TD Bank Standard	--	18.50	21
Emerald Visa	12	10.90	0
Vancouver City Savings	--	18.50²	21
Low Rate Option	25	10.50	21
American Express			
Standard	--	9.90 (6 months)	21
	--	17.99 (Preferred)³	21
	--	19.99 (Standard)	21
Optima	15	18.99³	21

¹ Interest is calculated from the date of purchase for all credit cards listed.

² The standard rate is currently 17.9% - the 18.5% rate takes effect on August 1, 2000.

³ New rates take effect September 1, 2000.

Other Credit Cards¹

Card Issuer	Annual Fee (\$)	Interest Rate (%)	Grace Period (days)	Interest Calculated From	
				Purchase Date	Statement Date
Canadian Tire	--	28.8	25-30		x
Hudson's Bay ²	--	28.8	25-30		*
Petro-Canada	--	24.0	30	x	
Sears	--	28.8	25-30		x
Zellers	--	28.8	25-30		*

¹ The Esso personal credit card was discontinued as of April 27, 2000, and replaced by the Royal Bank Esso Visa.

² 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	Annual Fee (\$)	Late Penalty Rate (%)	Grace Period (days)	Interest Calculated From	
				Purchase Date	Statement Date
American Express	55	30.0	30		x
Diners Club/enRoute	65	30.0	52-60		x
Irving Oil	--	24.0	25		x

Definitions

Credit Cards: Cards that provide revolving credit. Minimum monthly payments are required.

Charge Cards: Cards requiring payment in full each month.

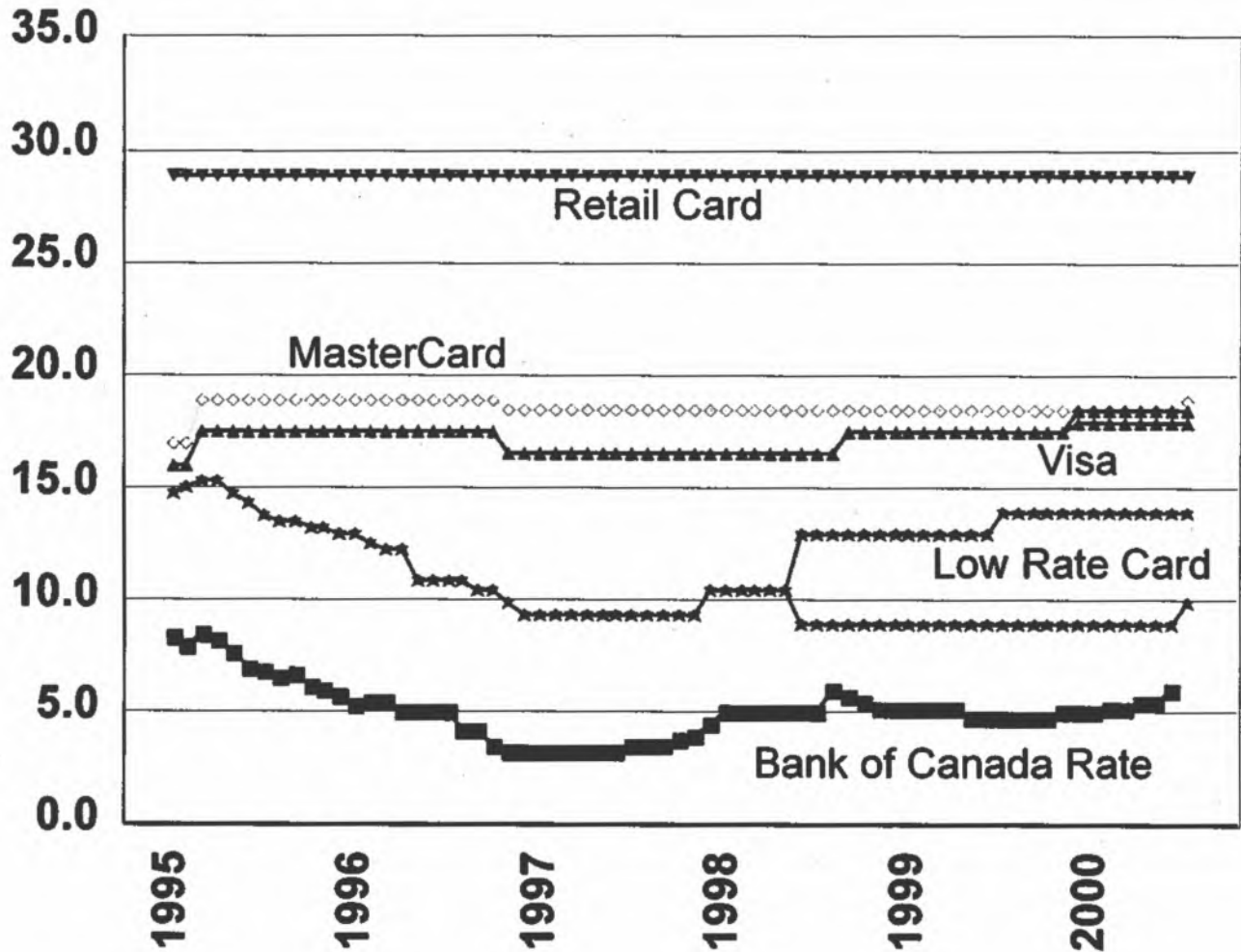
Fees: Charges such as transaction fees, administration fees or annual fees.

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 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



Bank of Canada Rate: rate at which banks can borrow money from the central bank.

Retail Card: based on the Sears card.

MasterCard: Based on the Bank of Montreal.

Visa: Based on the Royal Bank. Note that on December 1, 1999 the interest rate increased from 17.5% (for all transactions) to 17.9% for purchases and 18.5% for cash advances (i.e., split rate).

Low Rate Card: Based on the Bank of Montreal low rate option (rate split in June 1998. Current interest rate is 8.9% for cash advances and 13.9% for retail purchases).

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 interest of \$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.

