



# Credit Card Costs Report

Office of Consumer Affairs

April 2001

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Data compiled by the Office of Consumer Affairs of Industry Canada from information given by card issuers. Information accurate as of April 1<sup>st</sup>, 2001.

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**Publication available on-line at: <http://consumerconnection.ic.gc.ca>**

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30 % recycled  
material

Canada

## Consumer Advisory

### Interest Rate Changes

The **Bank of Canada** has made two interest rate reductions so far in 2001. On January 23<sup>rd</sup>, 2001, it lowered the **Bank Rate** 25 basis points to 5.75%. A further cut of 50 basis points occurred on March 6<sup>th</sup>, 2001, leaving the Bank Rate currently at 5.25%. In both instances, the Bank of Canada cited the slowdown in the U.S. economy as a prominent factor in their announcement. The next scheduled date for a Bank Rate announcement is April 17<sup>th</sup>, 2001, with many forecasters predicting further rate reductions. In the United States, the **Federal Reserve's** Open Market Committee (FOMC) has reduced its key **federal funds rate** by 50 basis points on three occasions in 2001. Fifty basis point cuts occurred on January 3<sup>rd</sup>, January 29<sup>th</sup> and March 20<sup>th</sup>, 2001. The federal funds rate currently stands at 5.00%, its lowest level in almost 2 years. The FOMC is next scheduled to meet on May 15<sup>th</sup>, 2001, with most analysts predicting further rate reductions.

There have been a number of reported changes to credit card interest rates and conditions since the December *Credit Card Costs* issue. The **Bank of Montreal** announced the cancellation of their basic credit card. **CS-Coop** announced a reduction in their grace period from 21 to 19 days. In addition, the **CS Alterna Bank** MasterCard was launched on October 2<sup>nd</sup>, 2000 with no annual fee, an interest rate of 18.4% and a grace period of 19 days. The **National Bank** increased the rate on their Standard MasterCard from 18.4% to 18.9%, while effective March 1<sup>st</sup>, 2001, the **TD Bank** announced a rate increase to 12.9% (from 10.9%) to the Emerald Card. In addition, the grace period on the Emerald Card was increased from 0 to 21 days.

### Year End Facts and Figures

There are an estimated 56.7 million credit cards<sup>1</sup> in circulation<sup>2</sup> in Canada, or 2.40 cards for every adult Canadian over the age of 18. Of these cards, 40.1 million are Visa or MasterCard and 16.6 million are cards issued by large department stores, gasoline companies, and other issuers such as American Express and Diner's Club/enRoute.

The total number of Visa and MasterCards in circulation increased from 37.7 million in 1999 to 40.1 million in 2000. These cards were used for 1184.7 million transactions in 2000. The dollar value of Visa and MasterCard sales increased approximately 16.5% from \$94.3 billion in 1999 to \$109.9 billion in 2000. Outstanding balances owed on MasterCard and Visa cards at the end of October 2000 totalled \$33.9 billion, up \$5.7 billion from October 1999. The average value of a Visa and MasterCard sale increased from \$90.35 in 1999 to \$95.57 in 2000.

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<sup>1</sup>This estimate only includes cards issued by Visa and MasterCard issuers and the other card issuers listed in this report. The assistance of all card issuers and that of the Canadian Bankers Association in compiling this information is gratefully acknowledged.

<sup>2</sup>The basis for the estimation of the number of cards in circulation may differ from one issuer to another.

## General Credit Cards<sup>1</sup>

Card Issuer	Annual Fee	Interest Rate	Grace Period
<i>MASTERCARD</i>	\$	Annual %	Days
Bank of Montreal Standard	--	18.90	19
Low Rate - Retail	15	13.90	23
Low Rate - cash advances, MC Cheques	15	9.90	23
Capital One Bank - Purchases	--	9.90 - 19.80	25
Capital One Bank - Cash Advances		<b>19.80</b>	
CS CO-OP	--	18.40	19
<b>CS Alterna Bank</b>	--	<b>18.40</b>	<b>19</b>
National Bank Standard	--	<b>18.90</b>	21
Low Rate - Cash Adv. / Balance Transfers	15	8.90	21
Low Rate - Purchases	15	13.90	21
Niagara Credit Union	--	17.50	21
Low Rate Option	25	9.25	21
Canadian Tire	--	18.9	21
<i>VISA</i>			
Scotiabank no-fee Standard	--	18.99	26
Scotiabank Standard	8	18.50	26
Value Visa	29	10.50	26
ScotiaLine Visa	--	Prime +	26
CIBC Classic	--	18.50	24
Select Visa	29	10.50	24
Caisses Populaires Desjardins Classic	--	18.90	21
Low Rate Option	25	10.90	21
Laurentian Bank	--	17.99	21
Reduced Rate Option	29	10.50	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	<b>12.90</b>	<b>21</b>
Vancouver City Savings	--	18.50	21
Low Rate Option	25	10.50	21
<i>AMERICAN EXPRESS</i> - Standard	--	9.90 (6 months)	21
	--	17.99 (Preferred)	21
	--	19.99 (Standard)	21
- Optima	15	18.99	21
<b><i>DINERS CLUB/enROUTE</i></b>	<b>65</b>	<b>22.00</b>	<b>21</b>

<sup>1</sup> Interest is calculated from the date of purchase for all credit cards listed.

\* Items in bold represent a change from the last report (or a new item).

## Other Credit Cards<sup>1</sup>

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	--	28.8	25-30		x
Petro-Canada	--	24.0	30	x	
Sears	--	28.8	25-30		x
Zellers	--	28.8	25-30		x

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

## 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.

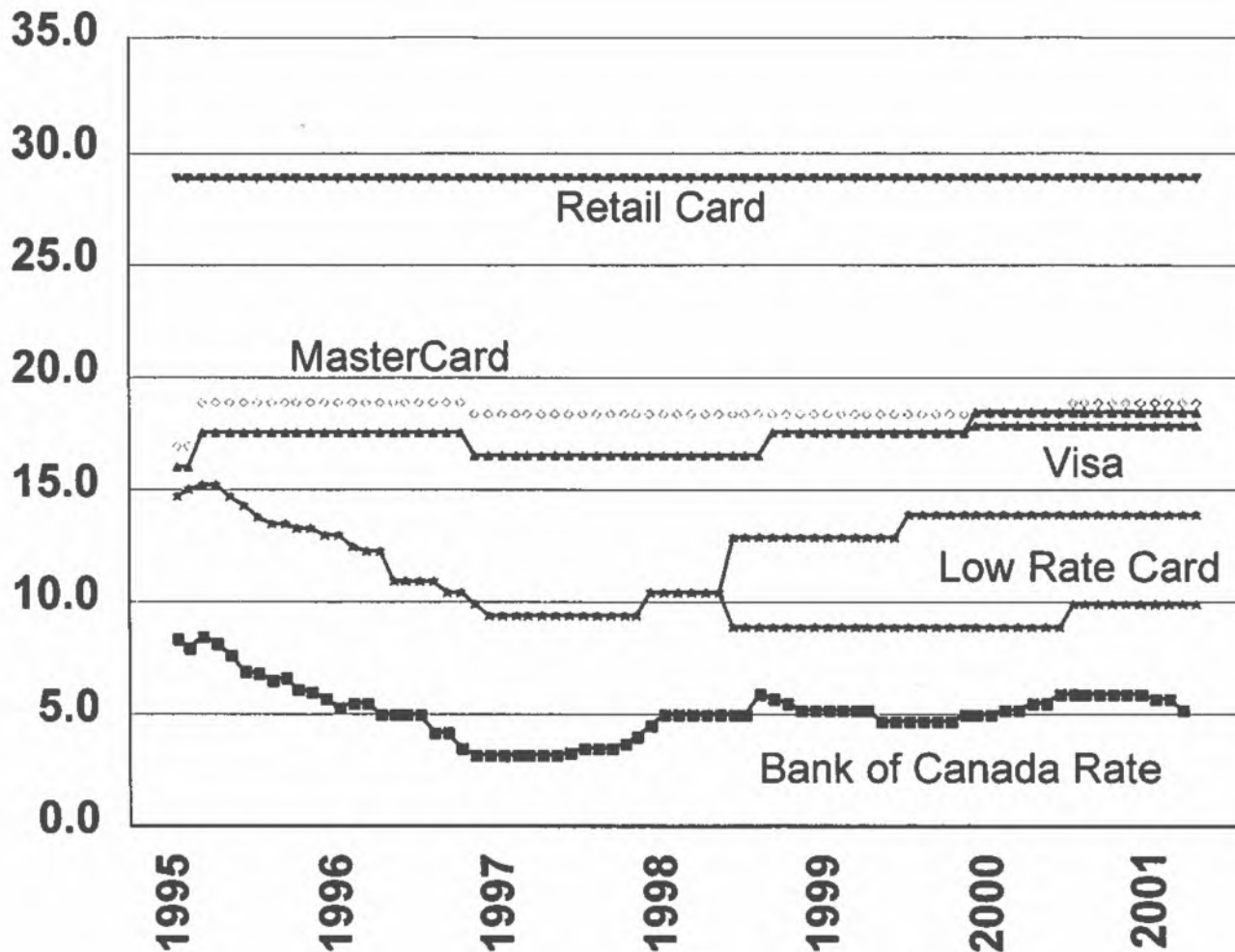
**Fees:** Charges such as transaction fees, administration fees or annual fees.

**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 9.9% 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.