



Credit Card Costs Report

Office of Consumer Affairs

July 2001

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Credit Cards – Interest Rate Changes Interest Rate Spreads

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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 July 2001.

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Aussi disponible en français sous le titre Coûts d'utilisation des cartes de crédit



30 % recycled
material

Canada

Consumer Advisory

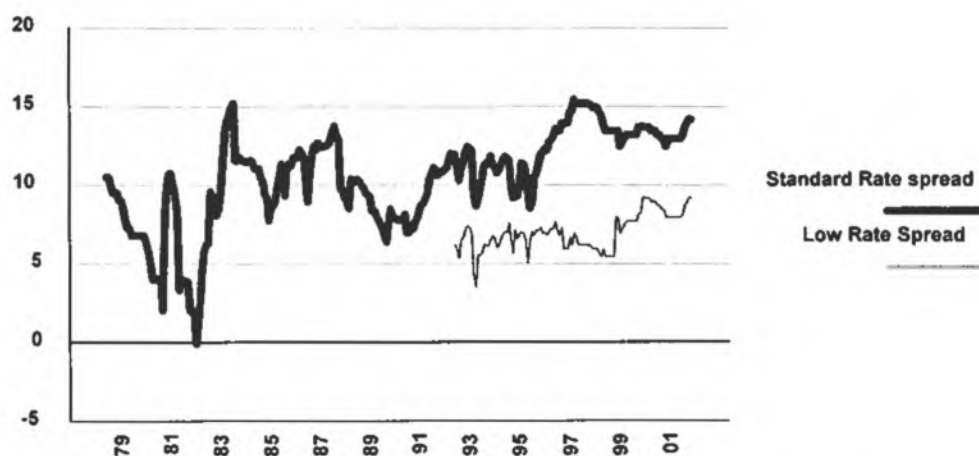
Interest Rate Changes

The **Bank of Canada** has made three interest rate reductions since the last issue of *Credit Card Costs*. On April 17th, 2001, it lowered the **Bank Rate** 25 basis points to 5.00%, and followed this with additional 25 basis point cuts on May 29th and July 17th, 2001. The next scheduled date for announcing policy interest rates by the Bank of Canada is August 28th, 2001. Since the beginning of the year, the Bank of Canada has lowered the Bank Rate by 150 basis points (from 6.00% at the start of the year to the current 4.50%). During this same period, there have been no reductions to any credit card interest rates charged by the financial institutions tracked by this publication. Financial institution credit card interest rates typically move upward and downward with the bank rate with a 3 to 6 month lag.

In the United States, the **Federal Reserve's** Open Market Committee reduced its key **federal funds rate** by 25 basis points on June 27th, 2001. This rate has fallen a sharp 275 basis points since the beginning of the year.

Spread Between the Bank Rate and Credit Card Interest Rates

Currently, the spread between the Bank Rate and a sample Visa¹ credit card is 14.15% - its highest spread since November 1997. Since 1997, the interest rate spread between the Bank Rate and standard credit card interest rates has averaged 13.6%. Since the beginning of our sample (January 1978), the monthly spread between these two rates has averaged slightly under 10.5%. From its introduction in January 1992, the spread for our sample low rate MasterCard¹ has averaged 6.95%, and is currently 9.15%. However, there is considerable variation in the rates, terms and conditions offered by low rate cards. Currently, the lowest spread for a low rate card, 4.75%, is offered by Niagara Credit Union, while 5 institutions have a spread of 6.0% (CIBC, Laurentian Bank, Royal Bank, Scotiabank and VanCity). The Canadian Bankers Association notes that credit card interest rates are based on a variety of factors including the cost of funds, losses due to fraud, customer defaults and delinquencies, ongoing infrastructure costs for administering card programs and the risk associated with extending unsecured credit.



¹The Royal Bank standard rate for purchases (17.9%) and the Bank of Montreal low rate option for purchases (13.9%) were used to calculate the spread with the Bank of Canada rate.

General Credit Cards¹

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		19.80	
CS CO-OP	--	18.40	19
CS Alterna Bank	--	18.40	19
National Bank Standard	--	18.90	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 Options	--	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 Green	--	18.50	21
Emerald Visa	12	12.90	21
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
<i>DINERS CLUB/enROUTE</i>	65	22.00	21

¹ 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 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	--	28.8	25-30		x
Petro-Canada	--	24.0	30	x	
Sears	--	28.8	25-30		x
Zellers	--	28.8	25-30		x

¹The 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.

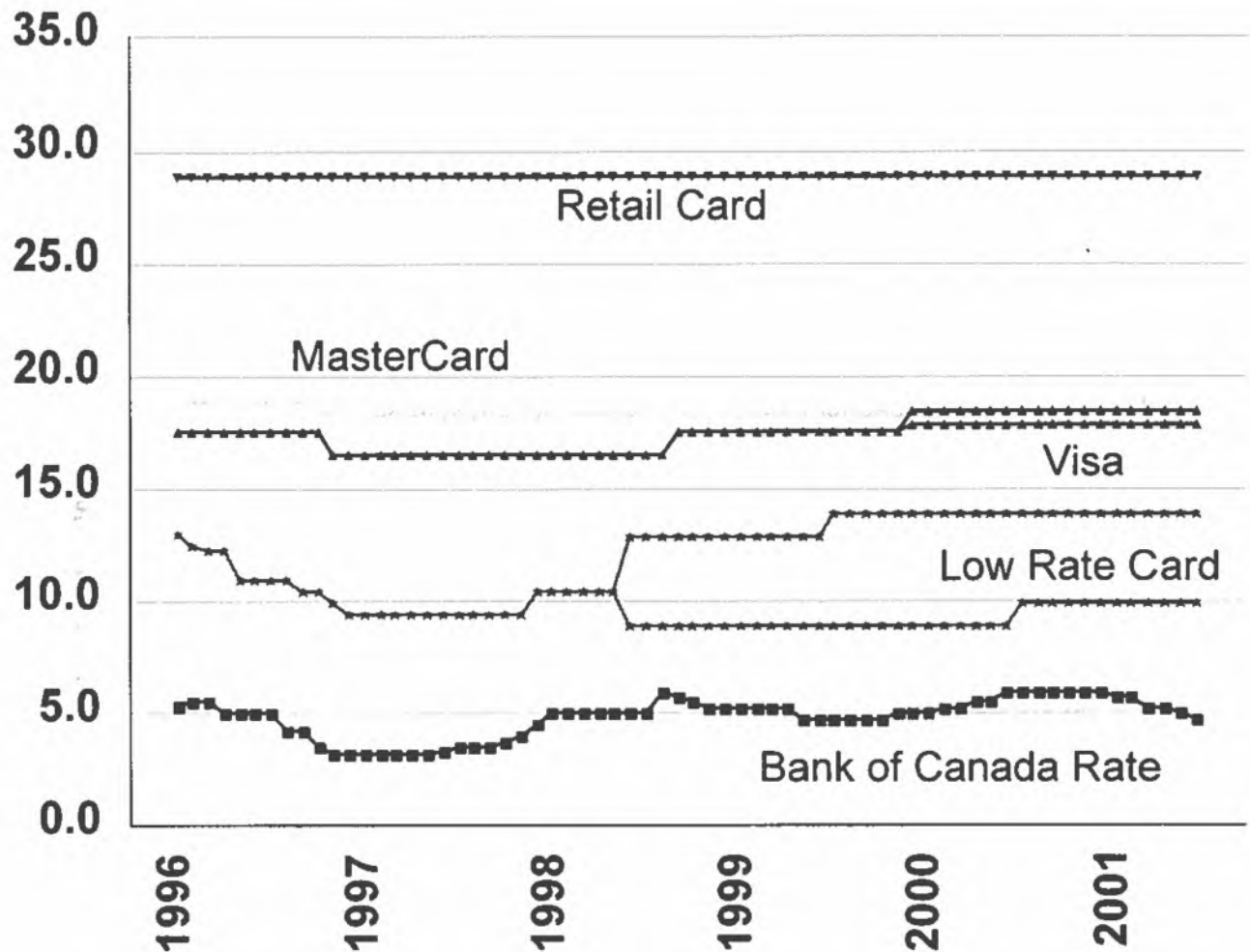
Fees: Charges such as transaction fees, administration fees or annual fees.

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.