

Credit Card Quiz*How Much Do You Know?*

Circle the correct answer.

1. Last month, your credit card balance was zero. This month, your statement shows that you made a \$500 purchase. If you can pay off only \$400 by the due date indicated on your statement, you will be charged interest only on the \$100 left to pay.

TrueFalse
2. You are carrying a \$1,000 balance on your credit card: \$800 for purchases you made two months ago, and \$200 for cash advances you took this month. Your credit card agreement says your annual interest rate is 16% for purchases, and 20% for cash advances. When you make a \$300 payment, the issuer will apply it to your purchases, because they occurred first.

TrueFalse
3. All credit card issuers have the same rule: if you pay off your credit card bill in full by the due date indicated on your statement, you won't be charged interest on any new purchases that appear on that statement

TrueFalse
4. You won't pay interest on a cash advance as long as you pay your credit card bill in full by the due date indicated on your statement.

TrueFalse
5. All credit cards have the same grace period.

TrueFalse
6. Most credit card issuers have formal policies in place to protect cardholders against unauthorized transactions on their accounts.

TrueFalse
7. If you frequently pay your credit card just a couple of days after the due date, this won't affect your credit rating.

TrueFalse
8. Credit rating agencies will charge you a fee for sending you a copy of your credit report by mail.

TrueFalse
9. Your January statement, dated January 31, shows that you owe \$550 because of a purchase you've been carrying over since October. Your next credit card payment is due on February 21. If you pay \$550 on February 13, you won't owe anything more.

TrueFalse
10. A credit card issuer can increase the administration fee it charges for a cash advance without telling you in advance.

TrueFalse

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Name: _____

Credit Card Quiz

How Much Do You Know?

1. Last month, your credit card balance was zero. This month, your statement shows that you made a \$500 purchase. If you can pay off only \$400 by the due date indicated on your statement, you will be charged interest only on the \$100 left to pay.

FALSE

It is a common myth to think that you will pay interest only on the amount left to pay (also called the outstanding amount) on your credit card bill. If you don't pay in full by the due date indicated on your credit card statement, you lose the interest-free period on your new purchases, and:

- You will be charged interest on the \$400 you paid off - from the transaction date (or from the posted date) until the day you made the \$400 payment; and
- You will be charged interest on the \$100 outstanding - from the transaction date (or the posted date) until the date you pay this amount in full.

2. You are carrying a \$1,000 balance on your credit card: \$800 for purchases you made two months ago, and \$200 for cash advances you took this month. Your credit card agreement says your annual interest rate is 16% for purchases, and 20% for cash advances. When you make a \$300 payment, the issuer will apply it to your purchases, because they occurred first.

FALSE

Credit card issuers can apply the minimum payment any way they want. However, if you pay more than the minimum amount, your credit card issuer has to apply the amount over the minimum payment in one of two ways:

1. to the part of your balance with the highest interest rate, and then in descending order to the rest of your balance (next highest interest rate to lowest), or
2. proportionally to all interest rate categories of the balance.

Keep in mind that the credit card issuer can charge different interest rates for different types of transactions. For example, for purchases, your interest rate could be 18%, but for cash advances and balance transfers, it might be 21%. Check your credit card agreement or disclosure statement, because these interest rates must be outlined in the agreement or statement.

3. All credit card issuers have the same rule: if you pay off your credit card bill in full by the due date indicated on your statement, you won't be charged interest on any new purchases that appear on that statement

TRUE

You will never have to pay any interest if:

1. you always pay the full amount owing on your credit card by the payment due date;

AND

2. you don't use your credit card to take cash advances or make cash-like transactions, such as a wire transfer or money order.

However, if you are carrying a balance, you will pay interest on the outstanding amount until your balance is paid in full

4. You won't pay interest on a cash advance as long as you pay your credit card bill in full by the due date indicated on your statement.

FALSE

Cash advances do not benefit from the interest-free period (only purchases do). In other words, you must pay interest on cash advances from the day you obtain them until you pay them off in full.

5. All credit cards have the same grace period.

FALSE

For federally regulated financial institutions the grace period on new purchases has to be a minimum of 21 days but can be longer.

The grace period is the time between the statement date and the payment due date, and is provided by the credit card issuer. The grace period usually varies between 21 and 26 days and is a component of the interest-free period.

6. Most credit card issuers have formal policies in place to protect cardholders against unauthorized transactions on their accounts.

TRUE

Visa, MasterCard, and American Express have what they call "Zero-liability policies" that protect their cardholders from unauthorized transactions. If you find an unauthorized transaction on your account, let your credit card issuer know immediately. They will investigate the matter and reimburse you in most cases.

7. If you frequently pay your credit card just a couple of days after the due date, this won't affect your credit rating.

FALSE

Each month, your credit card issuer reports to the credit rating agencies in Canada whether you are paying on time. If you are late in making credit card payments, it will reflect negatively on your credit history and could seriously affect your credit rating. A tarnished credit rating could make it hard for you to get credit in the future, and you might end up paying a higher interest rate on loans you do obtain.

8. Credit rating agencies will charge you a fee for sending you a copy of your credit report by mail.

FALSE

If you request it be sent to you by mail, a copy of your credit report is free of charge from the two credit rating agencies in Canada (Equifax and TransUnion). You should obtain a copy of your credit report each year to ensure its accuracy (this does not affect your credit rating in any way).

You may be charged a small fee for a more detailed report.

9. Your January statement, dated January 31, shows that you owe \$550 because of a purchase you've been carrying over since October. Your next credit card payment is due on February 21. If you pay \$550 on February 13, you won't owe anything more.

FALSE

Since you've been carrying a balance since October, you owe interest on that amount until the day you pay it off in full. If you wait until February 13 to make a payment, you will still owe interest that accrued between the dates of January 31 (your statement date) and February 21 (your payment date). This interest charge will appear on your February statement.

10. A credit card issuer can increase the administration fee it charges for a cash advance without telling you in advance.

FALSE

A credit issuer regulated by the federal government must give at least 30 days notice before it can make the following changes to your credit card agreement (this list is not exhaustive):

- increase in fees for various transactions
- change in your fixed interest rate
- decrease in the grace period
- increase or decrease in the minimum payment

There are other changes the credit issuer can make without telling you in advance (these require a 30-day notice after the change has been made). Contact FCAC for more details.

Credit cards

Compare types of credit cards @

www.fcac-acfc.gc.ca/eng/resources/toolCalculator/creditCard/index-eng.asp

Credit cards are issued by

- banks - Visa, Mastercard...
- stores - The Bay, Sears...

Using the comparison chart on the right as reference, answer each of the following.

1. What do you notice about the interest rates charged on credit cards compared to those of savings accounts?

Savings 0.05 - 0.5%
credit cards 19 - 22% much higher

2. What is the compounding period on overdue accounts?

usually daily

3. Does a credit card cost anything if the balance is paid in full by the due date?

NO

4. What kinds of things do companies offer to entice you to sign up for their credit card?

Air Miles, rebates

5. How do you think these student cards might be different from other cards?

low credit limit \$500

Issuer	BMO Bank of Montreal	CIBC	Scotiabank	TD Canada Trust
Card name	BMO SPC AIR MILES MasterCard	Classic VISA Card for Students	Scene VISA card for Students	TD Green VISA Student
Minimum personal income required (\$)	Not specified	0	Not specified	Not specified
Minimum credit limit (\$)	500	500	500	500
Annual interest rates	Purchases ¹ (%)	19.99	19.99	19.99
	Cash advances ² (%)	21.50	19.99	21.50
	Balance transfers ³ (%)	21.50	19.99	21.50
Minimum Payment (% or % of outstanding balance)	2% of the outstanding balance shown on your account statement, or \$10	Greater of \$10 or 2.5% (plus the greater of overlimit or past due amount)	3%	\$10 plus interest and fees
Annual fees	First card (\$)	Free	Free	Free
	Extra cards (\$)	Free	N/A	Free

Rewards and benefits ⁴				
Issuer	BMO Bank of Montreal	CIBC	Scotiabank	TD Canada Trust
Rewards details	SPC discounts and Air Miles ⁵		Points toward entertainment rewards	
Travel and/or vacation	✓			
Cash back				
Groceries	✓			
Merchandise	✓		✓	
Vehicle rebates	✓			
Charitable donations	✓			
Health care	✓			
Financial products	✓			
Travel accident insurance	✓	✓		✓
Trip interruption or cancellation insurance	✓	✓		
Travel medical insurance	✓	✓		✓
Rental vehicle insurance	✓			
Flight delay insurance	✓			
Baggage insurance	✓			
Purchase protection and extended warranty	✓	✓		✓

✓ This option is included in the annual card fee.
 ✓ This option is offered for an additional fee.

Data last updated: January 2011.

1. If the grace period does not apply, the interest on purchases is calculated from the date of purchase of the item or, in some cases, the date the item is posted to your account.

2. Unless otherwise specified, for cash advances or balance transfers, interest is calculated from the date funds are borrowed. There is no grace period.

3. This is not a complete list of all rewards and benefits offered by credit card issuers. For more details about other rewards and benefits that are offered for additional fees, check with the credit card issuer.

4. The SPC card (partnership with Student Pricing Card) gives the cardholder discounts at various merchants (for example, retail stores and travel providers). For more details <http://spccard.ca/>.

Example 1

The information found on the back of Ahmad's monthly statement for a credit card issued by his bank is shown.

Crownbank Credit Card STATEMENT

Ahmad Mustafa
32 Cherry Lane
Hometown, ON
M7K 2B1

Account Number:	5446 xxxx xxxx 3230
Credit Limit:	\$5700
Daily ABM Cash Advance Limit:	\$1000
Annual Interest Rate:	14.9%

Annual Fee:	0
Grace Period:	21 days
Cards Issued:	1
Minimum Payment:	greater of \$10 or 3% of balance

GRACE PERIOD
a length of time, often days, during which no interest is charged

CREDIT HISTORY
of On Time
of Late Debt
of Defaults
of Charge-offs

- a. A statement is issued to Ahmad on the 8th of each month. On what date will the payment be due?

on 29th

- b. On September's statement, Ahmad has a balance of \$86.36. Determine his minimum payment.

$$0.03(86.36) = 2.59 \text{ or } \$10 \text{ greater is } \$10$$

- c. On October's statement, Ahmad has a balance of \$462.18. Determine his minimum payment.

$$0.03(462.18) = 13.87 \text{ or } \$10 \text{ greater is } \$13.87$$

- d. If it takes three days to process his payment, what is the latest date that Ahmad can pay October's bill and not be overdue?

by 26th

- e. If interest is calculated and compounded daily, determine the daily interest rate. Round your answer to 4 decimal places.

$$i = \frac{0.149}{365} = 0.000408$$

- f. Calculate the interest charged on October's bill if it is paid in full five days after the due date. Ahmad paid his September bill in full. He made one new purchase for \$462.18 on September 15.

$$n = ct = (365) \left(\frac{49}{365} \right) = 49$$

$$i = \frac{0.149}{365}$$

$$A = P(1+i)^n$$

$$A = 462.18 \left(1 + \frac{0.149}{365} \right)^{49}$$

$$= 471.51$$

$$\therefore I = 471.51 - 462.18 = \$9.33$$

Sept. has 30 days
↓
Oct 1st 15 days
↓
Oct. 29th 29 days
↓
5 days Late
49 days