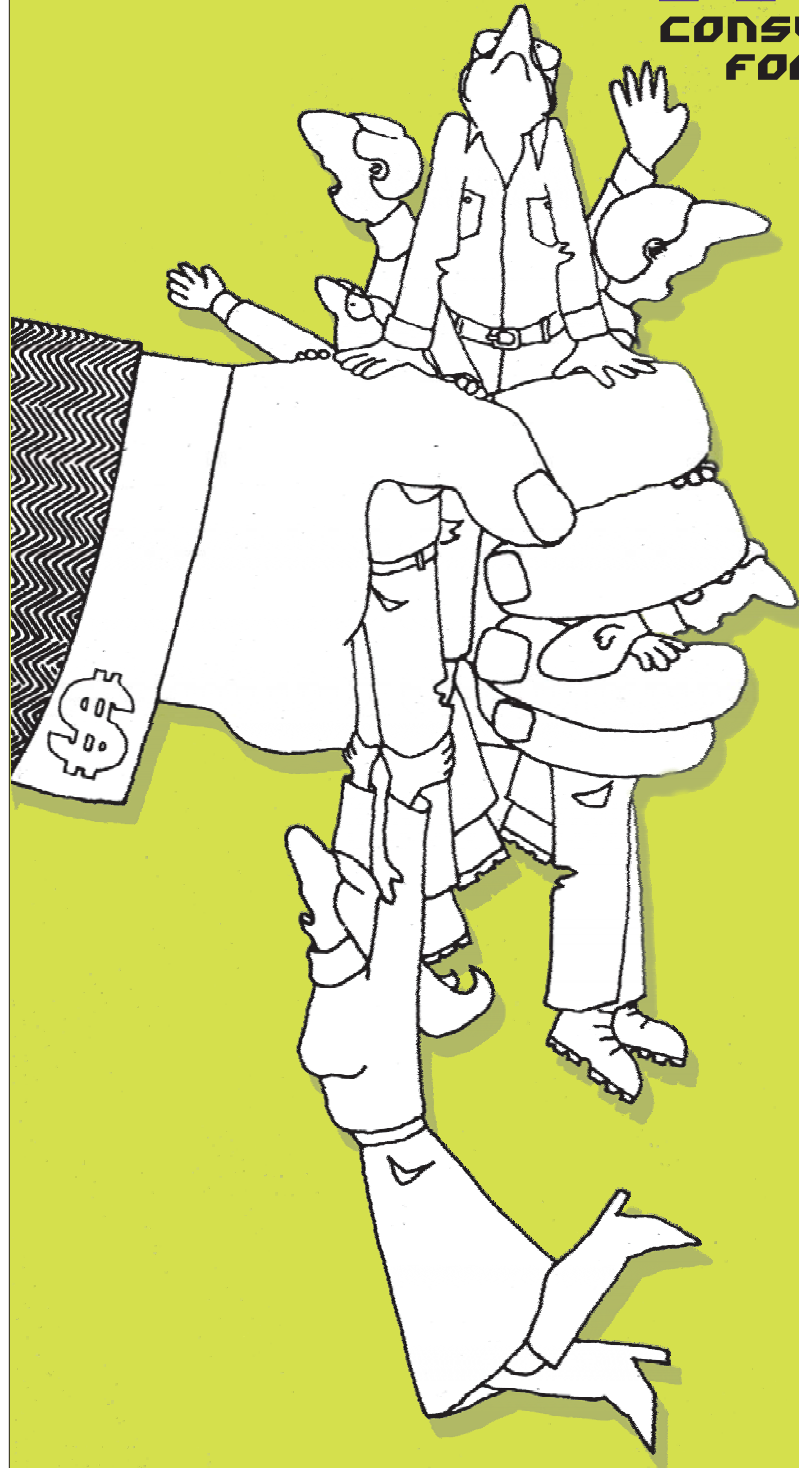




# SMART MONEY

CONSUMER SELF-DEFENCE  
FOR TIMES LIKE THESE

Surviving  
the credit  
crunch



# The Credit Crunch

TIMES ARE TOUGH and getting tougher. Unemployment is on the rise. Families are worrying about how to make ends meet from one month to the next.

According to Statistics Canada the unemployment rate in Canada remains at its highest in seven years at 8%. More and more families are relying on credit to keep their heads above water.

Last year 84% of Canadians reported having some kind of debt. According to the Bank of Canada, Canadians have over \$1,324 billion in outstanding consumer credit, with a majority of the credit tied into chartered banks. Last year, the President of the Retail Council of Canada went on record saying that Canadians were already paying \$4.5 billion a year in hidden fees ranging from cell phone operators to banks to gas companies.

As the recession drags on and people continue to go into debt, we see banks continuing to make profits. On May 28, 2009 the Toronto Dominion Bank reported earnings of \$618 million. On the same day the Bank of Montreal reported a profit of \$358 million, it also announced the bank was laying off 1,100 employees.

As people struggle to get by, we are reminded of exactly how the big banks and credit card companies produce the billions in profits. We see incredible and increasing interest rates being charged at random, growing user fees to access personal funds and marketing schemes to sell credit to the poor and vulnerable. This is all happening at a



time when the Bank of Canada has lowered its lending rate to 0.25%, the lowest in recent history. Why, when the banks are receiving such a deal and still making money, will they not pass on any savings to their customers?

Banks and credit card companies know full well that users are being hit hard. In a recent survey by the Environics Research Group, conducted on behalf of the Canadian Federation of Independent Business (CFIB), 82% of Canadians with a credit card support tighter rules in the industry. If this is the case why are governments doing so little to help families ease the financial strain during this time?

## Credit cards

At the end of April 2008, the Bank of Canada's overnight interest rate stood at 3.00%. A mere 13 months later, it had dropped to 0.25% but we still have not seen a similar reduction in the amount of interest the big banks and credit card companies are charging customers.

Banks and credit card companies continue to develop all manner of marketing strategies to attract users. They target different constituencies with different cards. Most students enrolled in postsecondary educational institutions do not even have to seek out an application for a card since the companies have them in their sights early on. These cards offer a range of

interest rates from the lowest at 11.40% to 19.75% with access to credit from \$300 to \$1,000.

It is not only those with little or no credit history who are targeted. Companies and banks target high earners for Platinum cards which require a certain income threshold to qualify. These cards carry a range of interest rates as well from 9.90% with an income of \$75,000 to 20.50% with an income of \$250,000.

The widest array of cards offered are “regular-rate” cards with most banks and credit card companies offering interest rates in the range of 17.99% to 19.97%. Some have at least one card available with lower rates ranging from 9.15% to 14.99% but these cards have limited functions.

Retail/department store credit cards continue to charge overwhelming interest rates. For example, the Bay and Sears charge 29% on outstanding balances.

So while the banks are borrowing money at an all-time low, interest rates have not declined. What is becoming more and more obvious are the predatory practices which allow banks and credit card companies to make more profit off the backs of suffering citizens.

One practice is to apply payments made by users to the low-interest purchases (regular purchases) first rather than the high-interest items such as cash advances or exceeding

the credit limit. This practice keeps people fighting debt much longer.

Instead of seeing any relief on the horizon from the interest rates being charged by credit card issuers and banks, many Canadians are now actually left with no choice but to watch the amount of interest they have to pay increase. Companies continue to invent all kinds of excuses to arbitrarily change the terms of your interest rates with little or no notification—such as, when you make a late payment, going over your credit limit or being too close to the credit limit, to name a few.

### Personal loans and lines of credit

WHAT IT COSTS to borrow depends on one’s credit rating: generally, the lower your credit rating, the higher your interest rate, if you can actually convince a bank to lend you any funds.

Canadians are under more debt than only credit cards. Many of us rely on personal loans and lines of credit to make ends meet from day to day. With rising unemployment, retirement savings losses and increasing everyday costs, people are turning more and more to credit.

Major banks have yet to reduce their interest rates on loans or lines of credit. While banks can borrow money from the Bank of Canada for a mere 0.25% interest, they continue

to charge customers up to 6% on personal credit.

## Automated teller machines (ATMs)

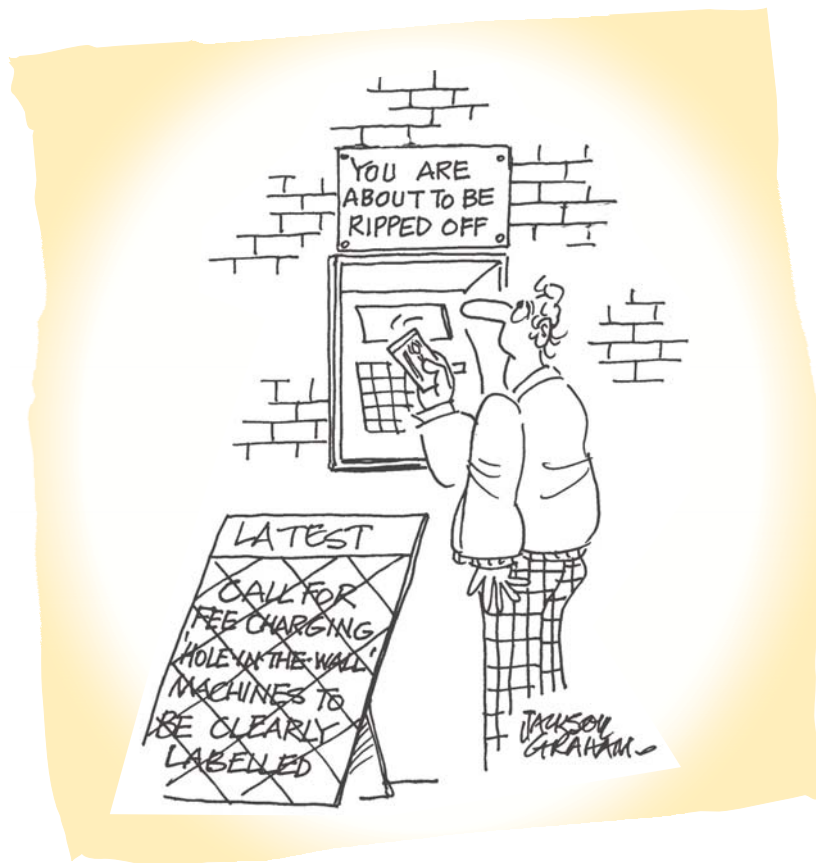
CANADIANS PAID an estimated \$420 million in ATM fees to access their own money in 2005. There are two kinds of fees: network fees paid monthly on your bank account and usually paid from your bank to the network and a convenience fee which is paid per transaction directly to the bank when using a machine other than your own bank. When using a major bank ATM, fees can range from \$1 to \$1.50.

Up until 1996, banks had a monopoly on automated teller machines. Then the government changed regulations to allow privately owned ATMs to operate.

When using a privately owned ATM location, the fees can sometimes be double.

The introduction of these “white label” machines has changed the ATM landscape considerably for Canadians. In 2005, the total number of machines was 51,097, an increase of 8,324 machines since 2000.

In 2007, the New Democratic Party (NDP) introduced a private members’ bill in the House of Commons to address the gouging through ATM fees by the banks. The bill would have



banned the collection of fees through an amendment to the *Banking Act*. The bill only made it to first reading as the Conservative government prorogued Parliament in September 2008 to avoid a loss of confidence vote in the House. All bills on the order paper would need to be reintroduced.

### Tackling credit

#### IN THE USA

In the United States, the average interest rate on new standard-fixed credit cards sits at 13.56% while the standard-variable cards rose two points, to 10.78%. For all fixed-rate cards, the average purchase interest rate remains at 12.38% and the variable cards remain at 10.79%.

Despite this, it is reported that one third of all credit card holders are paying over 20% interest rates and incurring excessive fee charges or after flawless payment records have their credit limits reduced unilaterally.

The new Obama administration quickly put into action a bill to protect citizens from arbitrary and predatory bank and credit card company behaviour. The House of Representatives passed the Credit Cardholders' Bill of Rights as an attempt to rein in credit card interest rate increases, excessive fees and address predatory marketing. Some of the changes include:

- Posting credit card agreements on the Internet;

- Allowing customers to pay online or via telephone banking without additional fees;
- Requiring 45 days notice with an explanation for an interest rate hike;
- Stopping the application of unfair interest rate increases retroactively to balances incurred under the old rate;
- Preventing the assessment of hidden interest charges on balance already paid;
- Stopping the practice of applying payments to balances with lower interest rates rather than higher interest rate items; and
- Ceasing the practice of charging late fees even though consumers mail in their payments during the grace period.

Another version of the bill was passed in the Senate which goes further in the restrictions to include:

- Those under 21 must prove they can repay the funds or have a parent or guardian as a guarantor; and
- Interest rate hikes can only take effect after payments are 60 days late but then must be reset at the original interest rate after six months of paying the minimum balance on time.

Some changes will take effect within nine months of the final passage of the bill; others will be implemented by July 2010. Disappointingly, there was no inclusion of a credit cap or regulations to limit the predatory behaviour of



many banks in the US when it comes to consumer debt.

Even in a declining economy big banks received over \$10 billion from out-of-network ATM fees last year. In many US states, big banks are charging approximately \$2.00 per transaction although banks like JP Morgan and Bank of America have just raised the fees again to \$3.00 per transaction.

### IN CANADA

Currently, it is a legal offence under Section 347 of the Criminal Code to charge more than 60% in interest per year. A new private members' bill was adopted in the House of Commons on April 28, 2009 focusing on increased regulations for any institution issuing credit cards.

The bill, initiated by the NDP, provides the government with the mandate to place a cap on credit card interest rates of five (5) percentage points above the prime rate with additional ways to prevent abusive fees and penalties, random interest rate increases and account changes. The bill also protects young people from predatory credit card marketing and protects users who pay their bills on time.

Unfortunately, most language and ideas contained in private members' bills do not find their way into actual government legislation and the Harper government does not seem poised to change this practice.

Despite signalling that it was interested in helping Canadians out by making changes to the consumer debt situation, Harper's Finance Minister has back-tracked at least twice so far.

The first about-face was in 2008 when he said he would tackle ATM fees but then reported that he was "pleased" with the way banks were operating.

Again, when the Harper government hinted that it would address rising interest rates and outrageous ATM bank fees, people had a glimmer of hope that they would see some ease on their pocketbook. In May 2009, Finance Minister Flaherty doused those hopes with cold water. The government's prescription is to only require that credit card companies and banks:

- Provide a "summary" box on all bills showing the interest rate and a calculation of how long it will take to pay off the debt; and
- Apply payments to amounts owing with the highest interest rates rather than the lowest rates.

### Plan of Action

THE BIG BANKS and credit card companies will only make changes when pressured to do so. We need everyone to continue to keep the issue of unfair charges and interest rates in the spotlight. Enormous personal debt

will not help this country come out of this period healthier.

Politicians must realize they cannot stand by while the recession pushes people further and further into debt.

There are a number of ways the government can ensure families are being treated fairly when it comes to managing their personal debt:

- Take more aggressive steps to ensure the reduction in interest rates from the Bank of Canada is passed along to help reduce the debt of Canadians;
- Amend the *Bank Act* to prohibit ATM fees at all banks;
- Legislate a cap on interest rates for credit cards and personal loans; and
- Demand more transparency from banks and credit card companies for interest rate increases, service charges and other fees.

### What we can do

**FIGHT** rate increases with your credit card companies and banks;

**DEMAND** clear explanations for any changes;

**SHOP** around for better rates;

**JOIN** the public debate on the economy through town hall meetings, letters to the editor and elected government officials; and

**VISIT** [www.peoplesresponse.ca](http://www.peoplesresponse.ca) for more information.