

1. Bank Cards

- a. In general, a credit card loan is priced the same as a small daily loan: interest is charged at a daily rate from the day the loan is made until the day the loan is repaid.
- b. Interest is charged (i) from the posting (roughly the purchase) date to the statement date, (ii) for the month from statement date to statement date, and (iii) from the statement date to the payment date (the so-called residual interest). This is the same as saying, as above, that interest is charged from the purchase date to the payment date. The component (ii) above may cover several months between the first statement date after purchase to the statement date before the final payment.
- c. Multiple purchases, partial payments, full payments and the timing of these transactions make the calculation of interest charges complicated. Cash advances and use of a card outside Canada also add complications. But the general view of credit card lending as the same as a series of small daily loans stays true. Even in complicated cases, total interest charges can be divided into the three components.
- d. The effective rate of interest for cards issued by financial institutions is never above the posted rate. The effective rate can, however, be below the posted rate if the consumer pays off in full before the end of the grace period and is charged no interest on new purchases. Two institutions do not charge residual interest; this also lowers the effective rate. If the consumer always pays in full by the end of the grace period, of course, the effective rate will be zero.
- e. From the day a partial payment is made, interest accrues on the remaining balance, not on the previous outstanding balance.
- f. Interest on bank cards is not compounded.

2. Retail Cards

- a. Unlike bank cards, retail cards generally charge interest on a monthly basis with interest accruing from the statement date and not the purchase date. Retailers do not charge residual interest. In terms of the components of interest given above, retailers charge only component (ii).