

## SPECIAL REPORT

### 11 Dirty Little Secrets Your Credit Card Company Hopes You Never Find Out!

**As your  
mortgage broker;  
my only job  
is looking out for  
your best interest.**



## 11 Dirty Little Secrets Your Credit Card Company Hopes You Never Find Out!

Those credit card offers just keep coming. Seems there's hardly a day goes by that your mail box is not stuffed with some new bank offering some new credit card. But there's a danger lurking for you also, one you may already be painfully aware of. Over use of credit cards is crippling the spending power of millions of Canadians. The following is the truth about what really goes on behind the scenes at your credit card company.

### Dirty Little Secret #1: Debt Addiction

Consumer debt is way out of control, but the dope (I mean "debt") pushers just keep on pushing. The average consumer has 7 credit cards with an average balance per card of \$2500. (That's \$17,500 in debt in case you haven't done the math!) 60 million Americans charge an average of \$6,000 on credit cards every year. Sure, there's safety in numbers, but is this the company in which you want to belong? I don't know about you, but I'd much rather belong to the "below average" customer group that has less than \$1000 in TOTAL credit card debt.

Credit card companies keep offering us new cards every week (think of how many you have gotten in the last year!) with higher credit limits and cash advances. Basically, they insult our intelligence. Many consumers are flattered when they receive their "PRE-APPROVED PLATINUM VISA, just fill out the form below, sign and send back" letter. We think we're being rewarded for a job well done. The job, of course, being able to spend money with the best of them and pay it back better than most. Don't get SUCKED into this mental trap!!! **STOP TRYING TO KEEP UP WITH THE JONES'. THEY'RE HEADED FOR BANKRUPTCY ANYWAY!**

### Dirty Little Secret #2: The Never Ending Balance

If you make the minimum payment due on your average balance of \$2500 each month, your credit card won't be paid off for over 30+ years! It's called "amortization," or in the case of credit card repayment, I should say "lack of amortization." In lay people's terms, this simply means, you have no real term set in order to pay this back. It's open-ended, as in "**NEVER ENDING!!**"

They'll let you pay on that same balance forever if you like. When you buy an automobile, you may finance it for five years. You know if you never send an extra dime but your monthly payment to that loan company or bank you will own that car on the day of your 60<sup>th</sup> payment. But that's not the case with credit cards. They are "revolving" accounts. Kind of like the earth revolves around the sun... I guess you can

say they are like the Energizer Bunny, "THEY KEEP GOING, AND GOING, AND GOING, AND GOING, AND GOING..."

### Dirty Little Secret #3: The Transfer Trap

Because banks know that credit card usage is at an all time high, most of them are killing each other to get your business. Many offer promotions like transferring balances from other cards to the new card they are offering you. If you transfer balances from other cards, they say they will charge you a reduced rate of interest on those portions that are transfers. This sounds like a great deal (going from 18% to a promotional rate of say, 9.9%); however, most of them have a catch. For instance, if you do not charge something on the new card each and every month, the interest goes up to the regular rate of the card (which is often high), or if you make one late payment, you forego the lower promotional rate, and the rate again goes up to the regular rate of the card. Beware of the "Transfer Trap." All you're really doing is transferring your agony from one company to another, and avoiding the real solution; finding a workable plan that will get you debt free once and for all.

### Dirty Little Secret #4: Minimum Payment Misery

If you keep making your minimum payment only, your balance will rarely ever get paid off. Have you ever noticed how, while your minimum payment due on your credit card is \$85, your balance only came down \$6 dollars? WHY??? That's because we pay un-Godly amounts of interest on credit cards. Even the so-called "low-interest rate" credit cards don't show their payments going toward bringing down their balances. All they do is just require a lower minimum payment. Sure, this might help your monthly outgo right now, but what's it doing to get you out of debt faster? NOTHING! That's because the MINIMUM PAYMENT DUE ON CREDIT CARDS ARE BASICALLY "INTEREST-ONLY" PAYMENTS, and making the minimum payment on a credit card is a guaranteed way to NEVER PAY IT OFF! Suppose you owe \$2,000 on a card with 19% interest and a 2% minimum payment. Paying just the minimum every month, **it will take you 265 months--over 22 years--to pay off the debt**, and it will cost you nearly \$4,800 in interest payments.

Doubling the amount paid each month to 4% of the balance owed would allow you to shorten the payment time to 88 months from 265 months--or 7 years as opposed to 22 years--and save you about \$3,680.

### Dirty Little Secret #5: Fine Print Fiasco

Example: Your rate of 6.9% is a teaser rate. After six months, your rate will be 21%. The Teaser, a.k.a. introductory rate credit card has made credit card banks and centers BILLIONS of dollars. Because so few consumers ever read the FINE PRINT. You know the print that only the eyes of a 12-year-old can read without getting a migraine? These credit cards come with stipulations. There are too many "catches" to name.

But, I assure you, they are there. Credit card banks don't make any money if they are financing your debt at below the Bank of Canada lending rate. So I leave you with one last thought on this topic, "IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS."

### Fight Back by Understanding These Terms

The key to reading your credit card statement is to understand the terms on it. Here are explanations of common terms:

- **Amount due:** Some cards use this term to describe the minimum monthly payment. This is not the total you owe on the card.
- **Annual percentage rate (APR):** This is the finance charge, expressed as an annual figure, such as 21%.
- **Cash advance:** A loan in the form of cash (as opposed to purchases of goods or services) made through a credit card.
- **Due date:** The date by which your payment must be received by the company, for you to remain in good standing.
- **Finance charge:** The interest charge on your outstanding credit card balance.
- **Grace period:** A period in which you can make new purchases without paying interest. (Not all cards have a grace period.)
- **Late fee:** A charge assessed if your payment is recorded after the due date.
- **Minimum monthly payment:** The smallest amount you can pay to avoid being delinquent. Paying the minimum is the most expensive way to handle your credit card bills.
- **Monthly periodic rate:** A fraction of the APR (1/12), the rate at which interest is assessed during the billing period.
- **New Balance:** The total owed after new charges and credits have been added up.
- **Over-credit-limit fee:** A charge assessed if you put charges on your credit card that exceed your approved credit limit.
- **Previous (or outstanding) balance:** The amount you owed last month, after that month's payments and charges were added up.
- **Transaction fee:** A charge for making a purchase or receiving a cash advance.

### Dirty Little Secret #6: The Cruel Cost of Cash Advances

A cash advance is a loan billed to your credit card. You can obtain a cash advance with your credit card at a bank or an automated teller machine (ATM) or by using cheques linked to your credit card account. Most cards charge a special fee when a cash

advance is taken out. The fee is based on a percentage of the amount borrowed, usually about 2% or 3%. Some credit cards charge a minimum cash advance fee, as high as \$5. You could get \$20 in cash and be charged \$5, a fee equal to 25% of the amount you borrowed.

Most cards do not have a grace period on cash advances. This means you pay interest every day until you repay the cash advance, even if you do not have an outstanding balance from the previous statement. On some cards, the interest rate on cash advances is higher than the rate on purchases. Be sure you check the details on the contract sent to you by the card issuer.

Here is an example of charges that could be imposed for a \$200 cash advance that you pay off when the bill arrives:

- Cash Advance Fee = \$4 (2% of \$200)
- Interest for one month = \$3 (18% APR on \$200)
- Total cost for one month = \$7 (\$4 + \$3)

In comparison, a \$200 purchase on a card with a grace period could cost \$0 if paid off promptly in full.

**THE BOTTOM LINE:** It is usually much more expensive to take out a cash advance than to charge a purchase to your credit card. Use cash advances only for real emergencies.

## Dirty Little Secret #7: Hidden or Unexpected Fees

Most people look for a card that doesn't have an annual fee, but did you know that there are other fees that can cost you more in the long run?

- **Late fees** Most cards charge a fee when payments arrive late, after the due date. Some banks wait a few days before assessing this fee, but many impose it the day after the payment was due.

Some companies have a set fee, such as \$10 or \$15, while others charge a percentage, such as 5%, of the minimum payment due. Just paying late fees twice in one year can cost you more than an annual fee.

To avoid late fees, mail your payment in plenty of time to arrive before the due date. If you pay your bill at the bank's branch or ATM, find out how long it will take to process your payment. Sometimes payments made at a branch or ATM are not credited for a few days.

- **Over-credit-limit fees** Most cards assess a fee if you charge more than your credit limit. These fees are charged each time you exceed your limit, so you could be hit with several of them during one billing period.

Most banks have a set fee, such as \$10 or \$15, while others charge a percentage, such as 5%, of the amount you are over your limit.

If you charge \$400 over your limit, with a 5% penalty, you will pay a fee of \$20. This is in addition to interest charges.

- **Lost card replacement fees** A few companies charge people whose cards have been lost or stolen more than once or twice. These fees are usually \$5 or \$10.

**Pay Attention!** Special fees can cost you a lot, so keep track of when you mail your payments and how much credit you have left.

### Dirty Little Secret #8: Surprise Rate Increases

Did you know the credit card company can raise your interest rate if you are late on ANY payment? **I don't mean late just to the credit card but to ANYBODY!** Be late on your phone bill, car, house... ANYTHING. Or if in the eyes of a creditor you simply have too much outstanding credit, all bets are off regardless of whatever interest rate you signed up for.

The logic is simple. The industry believes it is within its rights to protect its interest in a more risky unsecured loan venture. Therefore, it is not unreasonable to raise rates if it has reason to think risk of being repaid has changed. And as a lender, the creditor has every right to view your credit file any time it wants... all of your file and not just its own payment history.

### Dirty Little Secret #9: Minimum Notice Rate Changes

If the above is not bad enough, consider the consumer with on time payments every month on everything. No problem, right? WRONG! Buried within the contract (that contract law attorneys admit they have great difficulty interpreting), is a clause that allows the company to change your interest rate **"at any time, for any reason, as long as the holder is given 15 days' notice."**

That's right. They can change their mind AFTER you make a purchase at 6.5% (for example) and any former agreements are null and void. How can a purchase price be changed after the sale? No other industry can do this but the credit card company.

### Dirty Little Secret #10: Sneaky Ways They Calculate Interest

Most banks use an "average daily balance" method to calculate interest.

#### **Average Daily Balance Method**

1. Every day, the bank adds your charges and payments to learn what you owed it that day. It adds these totals and divides that figure by the number of days in the month, to determine your average daily balance.

2. Then the bank divides its annual interest rate by 12 (the number of months in the year) to get a "monthly periodic interest rate." For example, an 18% interest rate divided by 12 equals a monthly rate of 1.5%.

3. The bank multiplies your average daily balance by the monthly periodic interest rate, to obtain the finance charge for that month.

In calculating your daily balance, most banks include charges made during the month (“average daily balance, including new purchases”). Others exclude those charges until the next statement (“average daily balance, excluding new purchases”), which is to your benefit.

### Dirty Little Secret #11: Two-Cycle Billing Method

Some banks retroactively eliminate the grace period by using a “two-cycle billing method.” If you don't pay the entire balance, the finance charge is based on the sum of the average daily balances for both the previous and current months. (Some banks exclude new purchases from the finance charge calculation of their two-cycle billing method.)

You are only charged for a two-month time period in the first month you don't pay all charges. People who sometimes pay in full and sometimes leave a balance will pay about the same amount under the two-cycle method as with a “no grace period” card.

**THE BOTTOM LINE:** You should know how your bank calculates finance charges.



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