THE GLOBE AND MAIL

Three common financial mistakes that too many people make

From sharing a PIN to penalties involved in mortgages, beware these blunders

ROB CARRICK
THE GLOBE AND MAIL
LAST UPDATED: SUNDAY, FEB. 26, 2017 9:42PM EST

A federal government survey has uncovered three examples of toxic financial illiteracy.

As a public service, let's set things right:

1. You should never share your bank-card PIN with anyone, not even family members.

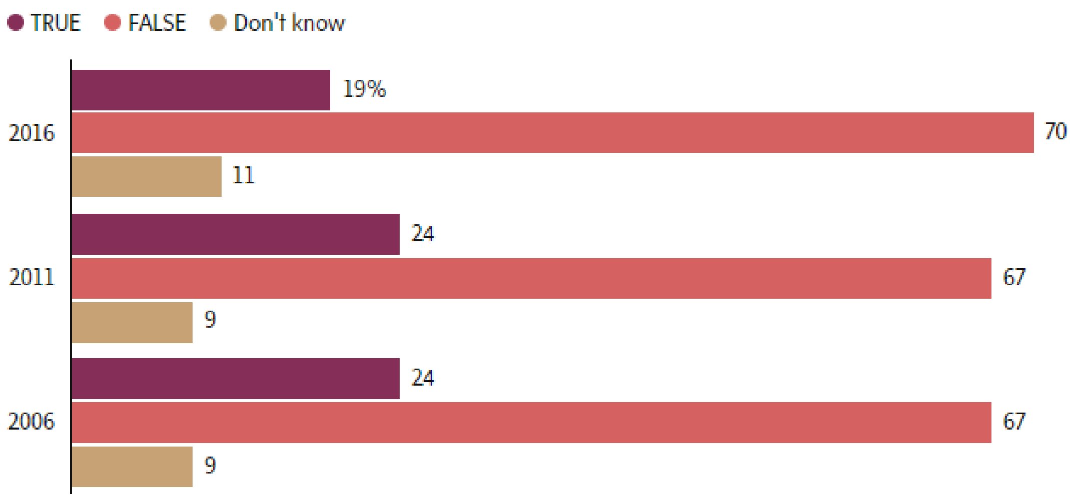
2. You pay interest on a cash advance using your credit starting immediately, with no interest-free period.

3. You may be charged a penalty to pay off or renegotiate a mortgage, and it could be far larger than three months' worth of interest.

The need for these points to be made can be seen in a survey conducted by Ipsos Public Affairs Canada for the federal Financial Consumer Agency of Canada. The survey was designed to measure how aware people are of their financial rights and responsibilities. Participants were presented with six statements and then asked to say whether they were true or false. On average, people answered 2.9 questions correctly and only 3 per cent scored a perfect mark.

Answers to three of the questions stand out for their prominent and potentially damaging wrongness. Most notable in this group was a question about sharing PINs. A dismally high number of people – almost one in five – said it was true that financial institutions permit account holders to share their PIN with other family members, such as a spouse.

Financial institutions permit account holders to share their PIN with other family members, such as a spouse. CORRECT ANSWER: FALSE



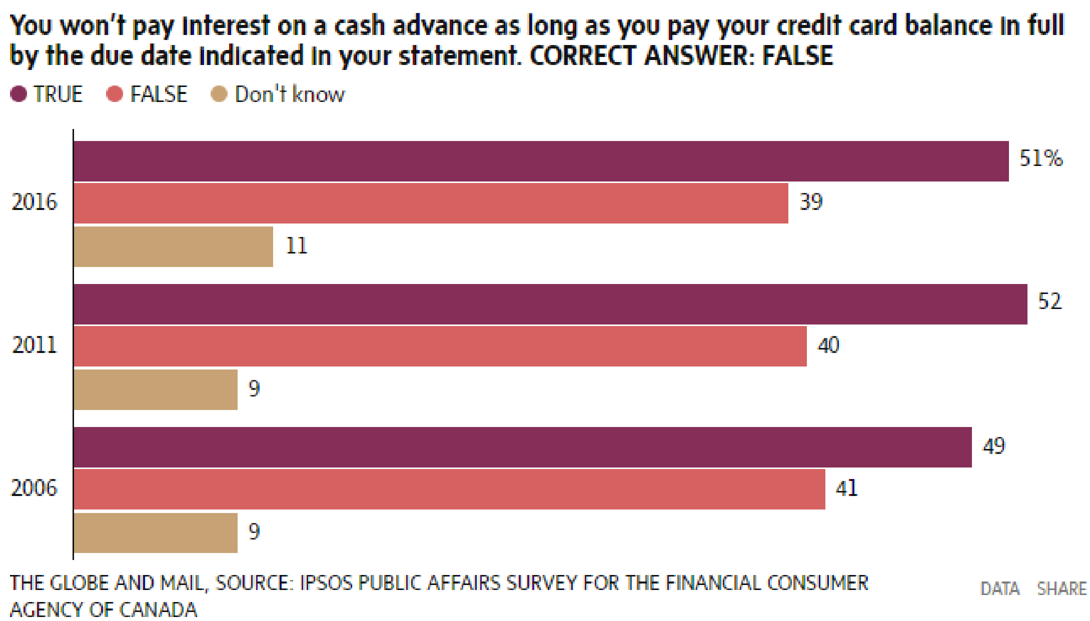
THE GLOBE AND MAIL, SOURCE: IPSOS PUBLIC AFFAIRS SURVEY FOR THE FINANCIAL CONSUMER AGENCY OF CANADA

DATA SHARE

Wrong. Repeat, wrong. You are protected against fraudulent transactions in your account provided you have not shared your PIN with anyone. There's no fine print exempting spouses and other family members, and there's a good reason for that.

Family dynamics being what they are, it's not impossible for an estranged partner or a child to try to gain access to your account without your authorization. Don't expect your bank to reimburse you for any losses from withdrawals made by someone to whom you gave your PIN.

Cash advances are an expensive trap for the financially unaware. Asked if it was true that people won't pay interest on a credit-card cash advance as long as the card balance is paid in full by the due date, just more than half of people in the FCAC survey answered with a Yes.



Wrong. Repeat, wrong. When buying things with a credit card, there is a grace period for payment that runs to the due date on your monthly card statement (you must pay in full for no interest to apply). To quote one bank's card disclosure: "There is no grace period for cash advances." Interest is charged on cash advances from the day the transaction is made.

In fact, you may pay a higher interest rate on cash advances than you do on unpaid balances carried over from month to month. A couple of popular travel rewards credit cards both charge 19.99 per cent on purchases, but one charges 21.99 per cent on cash advances and the other charges 22.99 per cent.

As well, there can be a $3.50 fee when taking a cash advance. Cash advances are the absolute worst way to get cash – save them for five-alarm emergencies when all else fails.

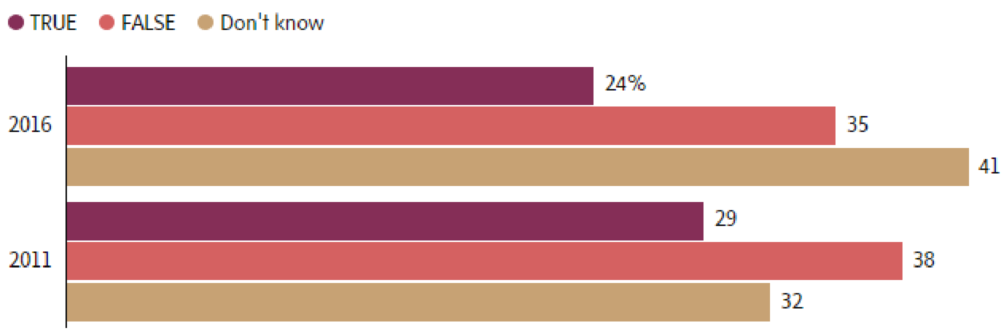
Saddest among the mistaken answers in the FCAC survey might be the one given to the question that asked people if it were true that the maximum penalty to breaking a mortgage was three months' interest. Almost one quarter said this was true, which it is not. You'd find this disturbing if you were like me in receiving many e-mails over the years from people irate over their mortgage penalties.

If you want to pay off or renegotiate your mortgage before the maturity date, you will always have to pay a penalty equal to three months' interest. CORRECT ANSWER: FALSE

THE GLOBE AND MAIL, SOURCE: IPSOS PUBLIC AFFAIRS SURVEY FOR THE FINANCIAL CONSUMER AGENCY OF CANADA

DATA SHARE

If you want to pay off or renegotiate your mortgage before the maturity date, you will never have to pay a penalty greater than three months' interest. CORRECT ANSWER: FALSE



THE GLOBE AND MAIL, SOURCE:IPSOS PUBLIC AFFAIRS SURVEY FOR THE FINANCIAL CONSUMER AGENCY OF CANADA

DATA SHARE

The usual procedure for a mortgage lender is to set the penalty for breaking a fixed-rate mortgage at the higher of three months' interest or a calculation called the interest rate differential, or IRD. The IRD compensates a lender for interest lost when you pay a mortgage off early. Note: Variable-rate mortgages usually use the three months' interest penalty.

One more key point: Some lenders, typically big banks, use a calculation for the IRD that results in a comparatively high penalty. Ask a lender if it uses posted mortgage rates to calculate the IRD, or discounted rates. If posted rates are used, your penalty could be much larger.

Financial literacy is about teaching broad principles – getting people to save more and reduce debt. But it's also about applying first aid where required. The lack of awareness about PIN privacy, credit-card cash advances and mortgage penalties certainly demands this attention.