New Democrats have a problem with this interpretation:

A There is no evidence that the interest rate spread on credit cards is justified by the historical difference between the loan loss ratio on credit cards, and the loan loss ratio on personal loans. The accepted loan loss ratio for personal loans, industry wide is around O.5%. Adding skips and other defaults puts the effective ratio at 1%.

The delinquency ratio (90 days +) is less than 3% for all products. It is less than 2% for personal line of credits and is *presently* in the vicinity of 1.5% for credit cards. Needless to say that these ratios do not factor in commissions perceived from merchants as a result of credit card use. If this is taken into consideration the credit card business becomes, probably, one of the most profitable segments of the banking industry.

B *The 1989 Committee's report acknowledged that the Canadian credit card market was highly competitive.* Therefore more competition is not the answer in this case. The blunt reality is that:

- The Canadian credit card market will remain oligopolistic.
- Competition in an oligopolistic market will not affect interest rates, because price leaders set the price trends. *It is more a case of product competition rather than price competition*: Competition will tend to work more on the packages of bonuses and benefits that financial institutions market with their cards. As the economy follows the business cycle, financial institutions will move to enhance their position by offsetting their losses elsewhere. Here is roughly how:

1 The Bank of Canada inflation fighting policies cause high interest rates.

2 The rise in the costs of banking activity, due to the rise in the Bank of Canada rate increase the cost of funds and reduces the net income of businesses. Banks start to lose corporate clients — this happens near the peak of the cycle.

3 Banks try to compensate for their losses and protect their profits by imposing harsher lending terms at the risk of critically weakening the fragile payment capacity of their customers. They will also try to minimize further losses, among other things, through a preventive recall of small business loans. They will also hike fees and bank service charges as a "pay-as-you-go" and/or a "pay anyway" tax.

4 When the Bank of Canada is satisfied that "inflation" is under control, it signals a downward trend in interest rates, within a targeted $US/$CAN exchange rate. In the process, the Bank of Canada creates an opportunity for the banking community to work that trend, and reap windfall profits on the relative spread they make between the interest they pay on their deposits and the interest they charge on their loans. These profits somehow compensate for the losses they have incurred as a consequence of recessionary economic policies — for instance in the commercial real estate sector. By shortening the average term of their borrowing and by lengthening the average term of their loans, banks will thus lower the cost of refinancing their loans, while the interest they charge on their loans to businesses and consumers will fall at a much slower and uneven pace. This is perfectly illustrated with credit card interest rates and mortgage rates. *Therefore the spread they charge on credit card rates does not reflect only risk, but also opportunities to make windfall profits. In a market dominated by oligopolistic arrangements, such as the case with the Canadian financial market,*