

Private Members' Business

[English]

I would like to explain what Bill C-233 would do if enacted. The bill has two purposes: it limits the amount of interest that financial institutions and retailers could charge, and it creates a standardized method of calculating interest charges and a mandatory grace period for partial payments on all types of credit cards.

We are told that we should not regulate interest rates in our free market society. There is a federal law dealing with credit card interest rates, section 305.1 of the Criminal Code. However, its applicability to loans advanced under credit cards is remote, given that the definition of criminal interest rate is an effective annual rate of interest that exceeds 60 per cent of the credit advanced under an agreement or arrangement.

Bill C-233 would regulate credit card interest rates in a realistic manner. The ceiling on rates would float with the average of the weekly Bank of Canada discount rate from the previous month. The spread between the card rate ceiling and the average bank rate would depend on the type of credit card. The finance committee's 1987 report concluded that among the different types of ceilings that could be used, a floating limit seems more sophisticated and more practical.

Credit cards issued by financial institutions, which include credit unions, caisses populaires and other co-operative credit societies could not carry interest at a rate exceeding the Bank of Canada discount rate by 6.5 or 8.5 per cent, depending on whether the institution charges entry fees, renewal fees or user fees.

Credit cards issued by petroleum companies could not carry interest at a rate exceeding the Bank of Canada discount rate by 9.5 per cent. Those issued by retail stores could not carry interest at a rate exceeding the Bank of Canada discount rate by 11.5 per cent on any unpaid monthly balance exceeding \$400.

• (1805)

Retail cards would use a tiered system instead of a floating limit. The rationale for a tiered system in this instance is that retailers do not have the same leverage that financial institutions enjoy. This system would recognize that operation costs on credit cards is higher for retailers than it is for financial institutions.

I must point out that the retailers have nonetheless abused their credit card practices. Their rates have remained virtually unchanged at 28.8 per cent throughout the 1990s when consumer interest rates were falling to record lows.

The Minister of Industry has already written to the president of the Retail Council of Canada urging council members to cut their rates.

[Translation]

I suggest capping credit card rates, because many people have the impression that credit card issuers are making exorbitant profits.

As I said earlier, the facts appear to confirm this impression. The capping concept is not new or radical. In fact, more than 35 American States have introduced this measure. Once again, this is a precedent for the regulation of financial markets.

In its 1989 report, the Standing Committee on Consumer and Corporate Affairs recommended that the spread between credit card rates and the bank rate should never exceed 8 per cent for bank cards and 16.5 per cent for retail cards.

The 1992 minority report said that when the Bank of Montreal introduced a credit card with a floating ceiling of 5.5 per cent plus prime, it proved that banks have other ways of making money. It also confirmed that floating credit card rates did not fly in the face of the laws of finance and were not a financial disaster for the banks.

The rates I used are based on information provided in the bill tabled during the last Parliament, which was reproduced in the 1989 report of the Standing Committee on Consumer and Corporate Affairs.

[English]

As already mentioned, the second component of Bill C-233 would make interest calculation on all types of credit cards uniform and would enact a mandatory grace period for partial payments.

This proposal has been long sought by various advocacy groups such as the Consumers Association of Canada. Furthermore, recommendations to this effect are contained in both the 1987 finance committee report and the 1989 consumer and corporate affairs report as well as a minority report struck in 1992. Clearly there is a great deal of support for the changes Bill C-233 espouses.

I will use an example to illustrate my case. Let us say that you make a single purchase of \$1,000 on your credit card and this is the only item on your monthly statement. Once you receive your statement you usually have a 21-day grace period to pay the full amount interest free. However, if you make a partial payment of \$700 you will be charged interest in two ways. First you will pay interest on the \$1,000 from the date of purchase to the date of the \$700 payment. Second, you will be charged interest on the remaining \$300 from the partial payment date to the next statement date. In other words, issuers of financial institution credit cards are making their money off the backs of people who, for whatever reason, do not pay their full amount in order to compensate for the grace period they offer people who do pay the full amount.