PRIVATE MEMBERS' BUSINESS

[*English*]

CREDIT CARD INTEREST CALCULATION ACT

Mr. Paul DeVillers (Simcoe North) moved that Bill C-233, an act to provide for the limitation of interest rates, of the application of interest and of fees in relation to credit card accounts, be read the second time and referred to a committee.

He said: Mr. Speaker, I am happy to sponsor this bill entitled an act to provide for the limitation of interest rates, of the application of interest and of fees in relation to credit card accounts.

Since their introduction in 1968 credit cards have been a major source of convenience for thousands of Canadians. Last year there were over 55 million credit cards in circulation which accounted for over 10 per cent of all consumer spending in Canada. They have become more than just another means of payment. Renting an automobile or reserving a hotel room for example can be impossible without a credit card.

Hardly a day goes by when I do not use my cards as identification or for a purchase. However, sometimes convenience has its costs and in the case of banks and retail cards it can be very costly indeed.

I decided to address the more contentious issues surrounding credit cards through legislation because I believe there is a great need to regulate what I and many people consider to be unfair practices for Canadian consumers.

I am fully aware that important players in the financial markets cringe at the mere thought of any legislation affecting their sector. They will be quick on their feet claiming the market should be left alone and in the end everything will be fine.

I will nonetheless try to demonstrate to the House that there is ample evidence to warrant regulation.

[*Translation*]

This is not the first time Parliament has considered the question of credit cards. During the past eight years, three parliamentary committees have examined the credit card industry in Canada. The Standing Committee on Finance published a report in 1987, and the Standing Committee on Consumer and Corporate Affairs did so in 1989 and 1992. Each study approached the issue from a somewhat different perspective.

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The concerns addressed included the size of the competition, obstacles encountered by consumers attempting to obtain information on rates, and the question of how interest is calculated, but the main contention was always the fact that interest rates were high and tended to remain so, despite the level of other types of rates.

The banks repeatedly told the committees that their rates were reasonable, since they did not produce a very high yield. That is hard to believe, especially when we see banks making record profits. Every time committee members asked what their rate of profit was, the banks refused to give the information, arguing that it would make them vulnerable to the competition. Despite this lack of co-operation, committee members found that the banks were collecting interest fees from between 70 and 80 per cent of their customers.

[*English*]

Bankers also argued that because the financial institutions take a high risk on many card holders they need a higher return on the cards than any other kind of loans to cover losses. However the evidence before the Standing Committee on Consumer and Corporate Affairs showed that there were fewer defaults on credit card loans than on corporate loans and on other kinds of consumer loans.

When the issue of capping rates was raised, the bankers threatened they would be forced to deny cards to lower income people. This did not sit well with the committee members since the banks' own figures suggested that lower income Canadians were more likely to pay off their monthly balance than their higher income counterparts.

The 1987 finance committee report states that 83.3 per cent of those they considered low income people would discharge their monthly balances, whereas 41 per cent of the card holders with incomes of over $60,000 or more routinely did not pay off their monthly balances.

Ann Finlayson and Sandra Martin, two investigative journalists, summed up these tactics very accurately in their book entitled *Card Tricks*. I quote: "The bankers' insistence that they would have to cut off lower income card holders proved nothing more than that they would cut off lower income earners, a stance that was strikingly similar to their extremely hard line on small business loans at the time".

[*Translation*]

Finally, as a result of this exercise in futility, members realized how difficult it was to obtain from the banks the information they needed to make intelligent recommendations. The banks did try to smooth ruffled feathers with a slight reduction in credit card rates. In 1989, the Standing Committee on Consumer and Corporate Affairs revealed that when the Standing Committee on Finance was revising the first draft of its report in 1987, the spread between the Bank of Canada rate and the interest on Visa cards was 11.46 percentage points, while shortly after the report was tabled, the spread dropped to 7.31 points.