

not now have a credit card and those who will never have a credit card could also be affected by interest rate ceilings.

All card issuers would probably react to ceilings with measures aimed at maintaining profits. Such measures would include:

- (1) introducing or increasing annual or transaction fees;
- (2) shortening or eliminating the grace period;
- (3) using a new method for calculating the interest-bearing balance;
- (4) improving the quality of credit card loans by
 - (a) ending the issue of new cards,
 - (b) taking back some cards (for example, those with delinquent accounts),
 - (c) lowering credit limits;
- (5) linking credit card use to other services and increasing the price of these services;
- (6) increasing merchant discounts; and
- (7) (for those issuers selling goods and services) raising other prices.

This list is based on the background paper by Desbois and Thomas [appended to the Finance Committee Report] and a recent study by the Board of Governors of the Federal Reserve System in the U.S. (G.B. Canner and J.T. Fergus, "The Economic Effects of Proposed Ceilings on Credit Card Interest Rates", /Federal Reserve Bulletin/, January 1987).

The Federal Reserve paper examined relevant studies on consumer credit restrictions in the U.S. and consumer surveys carried out during the past two decades by researchers at the University of Michigan. The Federal Reserve study concluded that reactions to ceilings would erode the benefits of ceilings to credit card borrowers and impose costs on other consumers. Among the other consumers, those with lower incomes would be most affected.

The extent of the reaction to a rate ceiling, of course, depends on the level of the ceiling or, with a floating ceiling, on the spread between a reference rate and the card rate. Unfortunately, there is no accurate guide for determining the ideal ceiling or spread.

When the business editor of the *Ottawa Sun* appeared before the Committee, she left five binders with 458 responses to a *Sun* write-in campaign on credit cards. Fifty-four responses, or almost 12%, wanted government regulation. Eleven wanted controls or regulations, but did not specify them. Of the rest, 15 wanted rates fixed at a particular level, and 28 wanted a floating cap on rates. There was no agreement, however, on what the fixed rate should be—suggested rates of 10, 13, 15 and 18% were given.