

## WORKERS' EDUCATIONAL ASSOCIATION OF CANADA

A Brief, submitted to the Parliamentary Committee on Banking, the House of Commons of Canada on Bill 91, section 91, subsections 1, 2 and 3, dealing with the rate of interest which may be exacted by a bank in Canada, on large or small loans and the methods by which interest charges are to be quoted to a borrower, and computed by a bank.

The House of Commons of Canada

Bill 91

An Act respecting Banks and Banking

91. (1) Except as hereinafter in this section provided, no bank shall in any part of Canada excepting the territories stipulate for, charge, take, reserve or exact any rate of interest or any rate of discount exceeding six per centum per annum and no higher rate of interest or rate of discount shall be recoverable by the bank.

(2) Where a loan, evidenced by a promissory note, repayable in substantially equal instalments, does not exceed five hundred dollars in principal amount and, so long as the loan is not in default, is not secured otherwise than by endorsement of the note or by insurance on the life of the borrower in favour of the bank as the insured, the bank may stipulate for, charge, take, reserve or exact discount or interest at a rate which, having regard to the term of the loan and the frequency of the instalments, does not exceed a rate of interest per annum equivalent to the rate resulting from a discount of five per centum on a one year loan repayable in equal consecutive monthly instalments, and no charge other than those authorized in this subsection may be made by the bank in respect of any such loan whether by way of service charge, fee, fine, penalty, commission or otherwise except the actual cost to the bank of the insurance aforesaid and interest on overdue instalments at a rate not exceeding the maximum rate permitted under this subsection.

(3) Where the interest or discount on any loan or advance amounts to less than one dollar the bank may, notwithstanding anything contained in subsections one and two of this section, stipulate for, charge, take, reserve or exact a total charge in respect of interest or discount not exceeding one dollar, provided that where the loan or advance is not in excess of twenty-five dollars and the interest or discount thereon is less than fifty cents, the maximum charge in respect thereof shall not exceed fifty cents.

This Brief deals with Bill 91, section 91, subsections 1, 2 and 3, concerning the maximum rates of interest and other charges which may be imposed by the Chartered Banks of Canada on loans.

Subsection 1 states, in effect, that no bank shall charge a rate of interest or a rate discount exceeding 6% per annum.

Subsection 2, states that on loans of \$500 or less, to be repaid in monthly instalments over a period of one year, a bank may deduct 5%.

On a casual reading, subsection 2 may look reasonable enough, but a more careful examination will show that the clause is not as innocent as it first appears.

Under subsection 2, on a loan of \$100 a bank is authorized to deduct \$5 as interest and advance \$95 to the borrower. Thus the interest charge is \$5 on \$95 and if the borrower had a full year to repay the \$100 the rate of interest is just over 5 1/2%. But the borrower must pay back 1/12 of the \$100 (\$8.33) at the end of the first month.