

its costs before a bond holder cashes in his investment. But we see no reason why similar principles should not also cover the banks' consumer lending activities."

What is the rationale for prohibiting such a conventional method of doing business on the part of the banks when the Government itself adopts similar methods?

There can be no doubt the charges associated with prepayment of loans and representing the cost of booking the loan will in fact be collected by the banks. In the face of a prohibition such as that contained in sub-Clause 202(8)(f), the banks will have no alternative but to effect collection of such costs from its general body of customers in some other form. In the course of describing a variety of effects that this prohibition will have on the operations of the banks Mr. Bell in his evidence observed:

"The second solution would be to increase the consumer lending rate structure. I think we would all agree that that is negative. Apart from the front end cost we described earlier, the elimination of the penalty charges would, in a volatile interest rate environment, result in increased funding cost that would not occur to the same extent if penalty charges could be applied to prepaid contracts. Both kinds of cost would be reflected in higher rates across the board. These rates would apply to all consumers, even those who do not exercise their option to prepay or, to put it in other words, those who do not break their contracts."

Since the costs are attributable to a desire on the part of a single customer to prepay a loan, it would appear unreasonable to reallocate the charges onto other customers who ought not to be affected by prepayment by another customer.

Your Committee does not make specific recommendations for amendments to those subclauses in the Bill at this time due to a desire not to delay the passage of this banking legislation. Your Committee trusts that its comments will be taken into account when the regulations are drafted.

7. FINANCIAL LEASING OF MOTOR VEHICLES

In its Interim Report on the subject-matter of Bill C-6 dated July 17, 1980, your Committee included an exhaustive analysis of the financial leasing provisions of the Bill including the history of the development of the proposed statutory language, and also including an analysis of the respective positions of the banking community and the community of automobile dealers in the controversial area of motor vehicle leasing.

The scheme as it appeared in Bill C-6 originally, (in keeping with the philosophy carried through successive Bills from the White Paper), was incorporated in Clauses 173(1)(j) and 193(1). Clause 173(1)(j) provided that the financial leasing activities of a Bank must be conducted through a subsidiary and Clause 193(1) provided, inter alia, that a Bank leasing corporation would be limited in its activities by reason of a prohibition preventing it from directing its customers, or potential customers, to particular dealers in the leased property.

As pointed out in your Committee's Interim Report, Bill C-6 was met by a vigorous lobby on the part of the Federation of Automobile Dealers Association (FADA), and the Canadian Automotive Leasing Association (CALA). The initial position of these organizations was that the banking community should be kept out of motor vehicle leasing entirely. By motor vehicle leasing these groups meant leasing of automobiles and trucks which would ordinarily be sold through conventional automobile dealers. In response the banks conceded, with certain reservations, that they need not engage in financial leasing on a one to one basis, but that they should be permitted to become involved in fleet leasing of passenger cars and unrestrained leasing of motor vehicles other than passenger cars, i.e. trucks, etc.

In evidence before your Committee at the time that Bill C-6 was originally tabled, and in negotiations which took place privately between the banking community and the automobile dealership community, efforts were made to draw a line for appropriate or inappropriate leasing activities of banks in terms of the so-called gross vehicle weight (GVW) of the vehicle involved. The dealers took the position that the banks should not be involved in any leasing of vehicles which weighed less than 46,000 pounds GVW. Apart altogether from the issue of fleet leasing and the financing of the leasing activities of small dealers in respect of individual passenger cars, the banks adopted the position that the appropriate demarcation line for vehicle weight was 16,000 pounds GVW. Your Committee in its Interim Report on Bill C-6 recommended as follows:

"... that the proposed language of sub-clause 1 of Clause 193 be rejected in favour of an amendment to prohibit a bank from having a leasing subsidiary that leases motor vehicles having a gross vehicle weight, or, in the case of tractor trailer combinations, a gross combination weight, of at least 16,000 pounds GVW; and further prohibits such leasing subsidiary from fleet leasing of vehicles except where the value of the motor vehicle lease is \$250,000 or more in a single transaction, or the quantity of vehicles leased is at least 25 in number."

In an amendment to Bill C-6 which was tabled at or about the time of your Committee's Interim Report, the Government altered the language of subclause 193(1) to prohibit a bank from entering into a lease agreement in respect of motor vehicles where the motor vehicles are "capable of being licensed for operation on a public highway and have a gross vehicle weight of less than 21 metric tonnes" (i.e. 46,000 pounds GVW). As appears from statistics which were made available to your Committee it is clear that more than 95% of all of the leasing of trucks done by both the members of FADA and of CALA falls in the area of the weight range of less than 16,000 pounds GVW. It is obvious from the evidence of the dealer witnesses that the real object of the pressure which they brought to bear on the Government was to keep the banks out of motor vehicle leasing entirely, whether or not there is a significant potential for conflict or competition with