pinned down to specifying the margin over prime for card rates. This witness did say that the appropriate level for the credit card rate in early December 1986 would be about equal to the consumer loan rate.

It is far easier to say that credit card rates should float with short-term interest rates than it is to specify the margin that would link the credit card rate to the chosen reference rate. The argument for legislating a floating ceiling on credit card rates presumes that credit card operations produce excess profits—that current interest rates on credit cards are too high. The floating ceiling, according to this view, merely eliminates the excess profits. Again, this seems simple, but the problem comes in trying to determine the precise amount of the excess profits so that the precise margin for the floating ceiling can be set.

Because of the variance in interest rates on credit cards, a floating ceiling would not affect all card issuers equally. A truly equitable policy would control not only interest rates but also any fees and the length of the grace period. Although superficially equitable, such policy could destroy much of the choice consumers now enjoy with respect to differently priced credit cards.

Another reason for not restricting the rate on credit cards to some margin above a reference short-term interest rate is that profits on credit card operations are cyclical. If the configuration of rate, fees and grace period were chosen to eliminate excess profits in one year, the card issuers might still suffer losses in other years. As seen above, the relatively high returns on card operations in 1985 offset to some extent the losses in 1981. In other words, one needs to know how interest rates, other operating costs and credit card use vary over the cycle to choose the correct margin.

The third type of restriction on credit card rates is a tiered system of rates with those with larger outstanding balances paying a lower rate of interest than those with lower outstanding balances. The rationale for this system is the nature of the fixed costs per account. Interest charges (and fees, if any) cover these fixed costs and the cost of funds. Those with large outstanding balances pay high interest charges that should easily cover the fixed costs for the account and probably cover the fixed costs for those with low (or zero) outstanding balances. It might seem fair, therefore, to have those with high balances pay lower interest charges, so they are not subsidizing other card users.

One of the witnesses before the Committee said that it had experimented with a tiered system of rates, but its customers objected to the system, claiming that the issuer was trying to tempt its card holders into running up larger bills. The experiment was discontinued because of the bad public relations involved. On the other hand, Canada Trust offers tiered rates on one of its premium cards—16.5% on balances below $2,500 and 13.5% on balances above $2,500. Several card issuers in the U.S. also offer tiered rates. There are, however, problems with tiering interest rates for different categories of card user. The main problem is the same as for the other restrictions on rates, namely that the information needed to set the tiers is difficult to determine. One would need to know the fixed costs per account and this is difficult to calculate as it involves allocating overhead to credit card operations and then to separate accounts. Different card issuers will have different accounting procedures; a tiered system that seems fair for the holders of one card may seem unfair to the holders of other cards.

How Canadians would be affected by rate ceilings would depend on how card issuers react to the ceilings and on the characteristics of card users. Those who do