

1. Private Member's Bill C-214 on Limitation of Interest Rates and Fees in Relation to Credit Card Accounts

On 10 April 1989, Mr. John Rodriguez, M.P., presented a bill that would provide for a floating cap on credit card rates and a ceiling on any fees associated with credit cards.

According to the bill, the ceiling on rates would float with the average of the weekly Bank Rates from the previous month. The spread between the card rate ceiling and the average Bank Rate will depend on the type of credit card:

- (a) Financial card with fees—6.5 percentage points,
- (b) Financial card without fees—8.5 percentage points,
- (c) Petroleum company card—9.5 percentage points,
- (d) Retail company card—11.5 percentage points.

The ceiling for (d) is on unpaid monthly balances exceeding \$400. In its brief to this Committee, the Retail Council of Canada pointed out that "it is, in fact, those who are most affluent who tend to maintain higher account balances." This is in line with a finding of the Finance Committee:

A mixture of evidence from the U.S. and Canada suggests that ceilings on credit card rates in Canada would, in the main, benefit well-educated, upper-income card users between 35 and 44 years old with above-average card balances who, for unknown reasons, do not now take advantage of lower-cost alternatives to regular credit card borrowing.

The Finance Committee Report also included a section on the possible effects of interest rate ceilings on credit cards. Three types of ceiling were considered—an absolute limit on the rate, a floating limit and a tiered system of limits. The second and third types are found in Bill C-214. The following are the relevant paragraphs from the Finance Committee Report:

The suggestion for a floating limit seems more sophisticated and more practical. If the credit card rate were tied to an interest rate that followed the general cycle of interest rates, the limit would appear to be reasonable throughout the interest rate cycle. However, the proposal also has problems.

The most significant problem is in choosing the margin that should be fixed between the reference interest rate and the credit card rate. Choosing the reference rate is also a problem. A witness with the Consumers' Association of Canada suggested that credit card rates be linked to the prime rate, but would not be