

*Consumer Credit Control*

I attempted to do so during the election campaign. I now receive six to eight letters per month asking for advice on financial matters. I have been placed in some embarrassing situations as a result.

**Mr. Thompson:** Do you charge a fee?

**Mr. Reid:** I did not hear the hon. gentleman, but I was wondering if perhaps his party ran its election campaign on credit.

**Mr. Thompson:** I was wondering whether you charged a fee for your advice.

**Mr. Reid:** No, I do not, but I hope these people will vote for me the next time around.

In any event, in respect of the first part of the bill covering the disclosure of interest rates and the amount of money being paid for credit, I think this is a good idea. Surely no one could take exception to it if it were simple or easy to implement, because everybody in the country would be better off as a result of it. However, while doing some research in respect of interest rates I found that I became very confused. I went to a bank to obtain a loan. I was charged 6 per cent interest, but when I went to pay off the loan I found there was something called a deposit at one end and a service charge at the other. On working out the effective rate of interest I found it ran in the neighbourhood of 10.9 to 11 per cent. I was amazed, and I am supposed to be advising my constituents about this subject which I do not fully understand myself. One must be very careful when borrowing money because the cost of that borrowing can be confusing and one can end up paying through the nose.

One finance company at the present time in its advertising campaign relates interest rates to rent, suggesting that the interest one pays for moneys borrowed can be likened to rent paid for an apartment. That seems to be a reasonable definition. However, the method of calculating the interest rate is very confusing, particularly when one considers the technical gyrations employed by finance companies, banks and trust companies in arriving at the effective rate of interest. When I attempted to discover the method of calculating an interest rate I found that every lending organization has its own method—trust companies have one method, insurance companies have another, banks have another and department stores have an even different method. It is very difficult to work out an effective interest rate, and it is extremely difficult to do so in respect of a bill of this nature.

[Mr. Reid.]

During my research on this subject of calculating true interest rates I came across an article written by Martin Dewey, which appeared in the *Winnipeg Free Press* of June 9, 1965. In this article Mr. Dewey outlines what he claims is a foolproof method of working out a true interest rate. It might be of interest to hon. members to have this method placed on the record. The formula looks extremely complicated but in fact is not difficult to work out. That formula is:

$$p(n+1) + \frac{d}{3}(n-1)$$

That formula looks complicated, but when the symbols are replaced by numbers it becomes simply a matter of multiplying and dividing. The letter "m" becomes nothing more than the number by which the payment period must be multiplied for a full year. If weekly payments are involved the "m" would be 52; if a monthly period is involved the "m" would be 12. The letter "d" is the cost of the credit, which means the total payments plus the deposit, minus the original cash price. The "p" is the cash price less the deposit. The "n" is the number of instalments.

In order to find out how effective this formula was I tried to compare it with the interest rate I was paying on my bank loan. When I worked out the figure, lo and behold it was 10.9 per cent. Out of curiosity I phoned my bank to find out the effective rate of interest I was being charged. They would not tell me over the phone and I had to go down to consult with the accountant. He worked the figure out, using a formula that seemed to be much more complicated, but the net percentage was almost identical to what I had arrived at.

Mr. Speaker, when the joint committee on consumer credit reconvenes its hearings I commend this formula for its consideration. If such a formula were made standard in the field of credit purchasing it would eliminate the variation in calculating interest rates which now exists.

• (5:20 p.m.)

Mr. Speaker, there is one other matter with which I should like to deal and it is the limitation of interest rates to 10 per cent. We all know that the question of the limitation of interest rates will be dealt with when the Bank Act is introduced this session by the Minister of Finance (Mr. Sharp). It is a