

Adjournment Debate

themselves but also cause their clients distress and financial loss, while not providing the public with the protection and service intended in the act. This may be a decidedly convoluted argument, Mr. Speaker, but is clear and factual, nevertheless.

● (2200)

The overriding feature of the Small Loans Act is the graduated limit it imposes on loans of value less than \$1,500. The upper limit for such loans is about 15 per cent interest, on a graduated scale. The purpose of such a ceiling was to protect small borrowers, high risk borrowers in many cases, from higher interest rates than could be enjoyed by more regular borrowers. The act was brought in at a time when the chartered banks, for reasons of prestige or security, did not encourage or accept consumer loans of this type, and at a time when other available sources of funds were not as plentiful and as reputable as many institutions which make up the small loans industry today.

The chartered banks are exempt from the provisions of the act. Other lenders, however, such as trust companies, finance companies and, of course, the co-operative credit unions and caisses populaires, must operate under the restriction and handicap to which the chartered banks are not exposed. As a result, there is a great lessening of competition in the small loans market, and a substantial falling off in the number of loans sought and issued.

High interest rates have made it unprofitable for small loans companies to serve the small loan borrower, as the interest ceilings make it impossible for the lenders to recover the costs of lending transactions and bad debts which attend these kinds of high risk loans. Thus, while the companies are suffering, so too are the borrowers. Their request for small loans under \$1,500 are being refused because there just are no sub 15 per cent funds available. The result in many cases, especially where loans of \$1,200 or \$1,300 are desired, is that borrowers are forced to borrow more than \$1,500—more than they need or want, thus incurring an increased debt burden and still having to pay the higher than 15 per cent interest rate, the very thing from which the act was supposed to protect them.

If, on the other hand, the borrower decides to go to another lending institution, he must still pay the higher interest rates to such institutions which are not restricted by the act. An even more sinister scenario is where the borrower, being unable to qualify for a loan from institutions which do not cater to higher risk requests, is forced to resort to a loan shark, with all the ugly consequences that conjures up.

You can see, Mr. Speaker, that this is a "no win" situation. When well-intentioned government restriction interferes with the free market forces, everybody suffers. In this case, the company cannot lend, the consumer cannot borrow, the money is not cheaply available, the job does not get done, the bill cannot be paid, the recreation room is not built, the plumbing is not fixed, the economy is not stimulated, and the whole high cost recession cycle is boosted a little further on its way.

For all these reasons, the Small Loans Act is a classic example of government regulation which has outlived its use-

[Mr. Gilchrist.]

fulness and now harms the very element of society it was designed to protect. Any other benefits incorporated in the Small Loans Act, such as the right of the borrower to prepay loans before maturity, without penalty, or to provide an instrument for the prosecuting and penalizing of loan sharks, could and should be incorporated in the Bank Act and/or Criminal Code.

The urgency occasioned by the imported high interest rate problem of recent weeks has imposed an impossible burden on the member owned co-operatives, small loan companies, and caisses populaires. Speedy repeal of the Small Loans Act would provide the vitally needed relief which, I am certain, would be wished by all members of this House for the benefit of the small loan borrower.

Mr. Ron Ritchie (Parliamentary Secretary to Minister of Finance): Mr. Speaker, I am delighted to be able to bring some assurance to the hon. member which I hope he will find encouraging.

As the Minister of Finance (Mr. Crosbie) indicated in this chamber on November 14, he is well aware that the Small Loans Act is in need of revision and, in particular, that the interest rate ceilings in the act are inappropriate under today's conditions. The Minister of Consumer and Corporate Affairs (Mr. Lawrence), whose department has in recent years been charged with the responsibility for generating policy relating to consumer credit generally, is also aware of the problem. He shares the view that this is definitely an area that requires early action. Officials of his department and of the Department of Insurance, which has continued to carry out the day to day administration of the act under the direction of the Minister of Finance pending clarification of the status of the act as an element of consumer credit protection, have been actively discussing possible changes.

● (2205)

Legislative proposals relating to the matter will be brought forward as soon as reasonably possible. It may be determined that the act no longer serves a useful purpose in today's environment. As a minimum, it can be expected that the interest rate ceilings will be revised and that the position under the act of financial institutions such as credit unions and caisses populaires will be dealt with. There is good reason to believe that it was never intended that such financial institutions should be subject to all of the provisions of the act. When the act was last revised in 1956, credit unions and caisses populaires were not nearly as large as they are now. Moreover, until quite recently, they were limited by provincial law to a maximum interest rate of 1 per cent per month. Thus, at the last revision the act was designed primarily to deal with the activities of those financial intermediaries that were then active in the field.

A somewhat anomalous situation, as just described by the hon. member, has arisen as a result of the general upturn in interest rates in recent years, since money lenders such as credit unions and caisses populaires must now obtain licensed status under the act if they wish to charge rates greater than 1