

banks can more than ever use their bargaining power to pass on to dispersed and numerous consumers and to small and medium sized accounts, the brunt of the costs. Hence they are engaged in price discrimination on both the asset and liabilities side of their balance sheets by segmenting their markets. In such a context, competition cannot by itself lower service charges.

In the US, the interest rate spread for credit cards is much higher than in Canada, in spite of the fact that the US financial market is a very competitive market. More than 4000 financial institutions market credit cards, and there are some 12000 banks. Several hundred banks go belly-up every year, mainly because there is no real national banking system and banking is governed by state law. Large US Banks also securitize their credit card receivable ie they sell these receivables on the stock exchange and make a bundle. Higher spreads therefore are needed to lure investors.

As securitization enters the Canadian market, it is very likely that it will cause even higher credit card interest rate spreads.

In conclusion we want to stress that a high credit card rate spread and excessive service charges are choices, among others, that bankers make to pass the buck to consumers. When the Bank of Montreal introduced a credit card with a floating cap of 5.5% above the prime rate, it clearly showed that banks have other options to make money. It also confirmed that a floating cap on credit card interest rates does not defy the laws of finance and will not break the banks!

New Democrat members therefore reaffirm the validity and the pertinence of the major recommendations made by the Standing Committee when it tabled its 1989 report. They are meant to refer to all cards issued in Canada, both charge cards and credit cards:

- 1. That in no instance should the spread between card rates and the Bank Rate exceed 8% for financial cards and 16.5% for retail cards.**
- 2. That credit card issuers be compelled to calculate interest charges in a manner which fully credits any partial payment by the credit card holder.**
- 3. That a Financial Services Ombudsman (FSO) be established to monitor credit card rate and financial service charge abuse. The FSO should be empowered to perform consumer advocacy and referee functions. He/she should report directly to Parliament and maintain a close working relationship with OSFI and the Department of Consumer and Corporate Affairs. This will ensure that consumers have some control over how the cost of financial services are delivered, and at whose cost.**
- 4. That the Government introduce in the House of Commons credit card disclosure legislation in the form contained in Appendix I.**
- 5. That a comprehensive comparison of interest rates, fees and pertinent credit card terms be released monthly by the Department of Consumer and Corporate Affairs or another Government agency.**