

Bank Act

take responsibility for rates when they go up can now start claiming responsibility for rates when they come down.

The fact remains that we have been allowed to see, with the dramatic increase in interest rates, the way by which the banks have been able to manipulate the rates which they charge to lenders and the rates which they pay to depositors. We have been able to see the way by which they have been able to take advantage of a high interest rate policy.

The banks have argued that they, too, are squeezed by high interest rates. If I were making \$325 million in the first quarter of 1980, that would be some squeeze. I wish somebody would squeeze me like that. They are arguing that they are being squeezed, but the fact remains that whether or not high interest rates cause a great deal of volatility in terms of bank profits—and there is no question that they have had some effect in that regard—the way by which the banks allocate their credit decisions and the way by which they decide who will receive what rate is something at which the government has to look.

When we on this side of the House raised the matter of the way by which the banks were manipulating interest rates and charging the lowest possible amount to Canada's least sophisticated and least wealthy savers, the people who deposit in a normal savings account, it was the Minister of Consumer and Corporate Affairs (Mr. Ouellet) who said that he would be taking a very close look at this, that this was something the government would be looking at. In fact, he suggested that we would have to wait for the publication of the new Bank Act to see what stand this government was going to take with respect to interest rate spreads and the ways in which the banks are able to use their market power in order to take advantage of Canada's economic situation.

Well, the fact remains—and it comes as no surprise to those of us in this party—that when the time came for the government to publish the Bank Act, there was nothing there. The Bank Act is totally silent on the question of profits. The Bank Act is totally silent on the question of interest rate spreads, and it is entirely silent on the subject of interest rate control.

● (1720)

The Bank Act is equally silent on the subject of consumer protection. We have the statement from the minister today that of course there are matters which must be included in regulations because they are subject to continued consideration by the department as to exactly what they will do. Yet, I would have thought that the Bank Act would provide the government with the best opportunity possible to give confidence to every single Canadian consumer. I would have thought that this was an act designed not for the banks or for the convenience of these tremendously powerful financial institutions, but for the protection of the lowly consumer, the average citizen.

Let me relate a personal experience, having had a loan at a credit union and having had a loan at one of Canada's chartered banks, the Bank of Montreal. When the time came to pay off the loan at the Bank of Montreal which I wanted to

pay off earlier, I was penalized by the Bank of Montreal because of the way in which they calculate their interest payments. They used the so-called "Rule of 78", the sum of digits approach, for calculating the payment of consumer debts as opposed to the normal amortization approach.

There is a complete contrast between the kind of penalty facing each and every consumer who have loans with one of our three chartered banks that continue to use the "Rule of 78" method and the method used, since their formation, by Canada's credit unions, a method that has been followed by two chartered banks but not all of them. The fact remains that the banks are taking systematic advantage of those Canadians who choose to pay off their loans early because of the way in which they calculate payments of interest.

Mr. Orlikow: It is theft.

Mr. Rae: The hon. member for Winnipeg North (Mr. Orlikow) says that it is theft. Some rob you with a six-gun and some rob you with a fountain pen, Mr. Speaker.

Mr. Rose: White collar crime.

Mr. Rae: It is white collar crime, as the hon. member for Mission-Port Moody (Mr. Rose) calls it. The fact of the matter is that the average consumer who walks into a bank is less sophisticated and does not know the method under which the bank calculates its interest payments on loans. If that consumer goes into a credit union, he gets a much better deal and much greater protection than if he goes into one of Canada's chartered banks. The reason is that truth of lending provisions are absent from the Bank Act, because they indicate that they will be in the regulations, which we will hardly ever see and which no one will understand. Understanding the Bank Act itself is difficult enough, let alone the regulations under the Bank Act. There is no guarantee that the average Canadian consumer can walk into a bank and have the same protection and the same confidence that he is not being taken for a ride as he would if he walked into a credit union. This is a point that we have been making for some time.

It is rather surprising, when the minister talks about competition and so forth being one of the primary goals of the act, that the government would have decided simply to leave it to the banks to decide what method of calculation they will use. It is a technical matter. Not everyone understands the "Rule of 78". One requires a blackboard to show how the banks do it. But I am sure the minister is aware that when the chartered banks calculate consumer loans using this notorious method, the result is that consumers who pay off their loans early pay a penalty to the bank. The banks reap a simple windfall because we do not have a government that is prepared to bring in legislation under the Bank Act to provide protection for the average consumer.

The minister mentioned that encouraging competition was one of the major aspects of this bill. He mentioned the Canadian Payments Association of which we are in favour. We have some concern about the amount of consumer participation in that association, but we are happy that the Canadian