

Rm. 10-A.

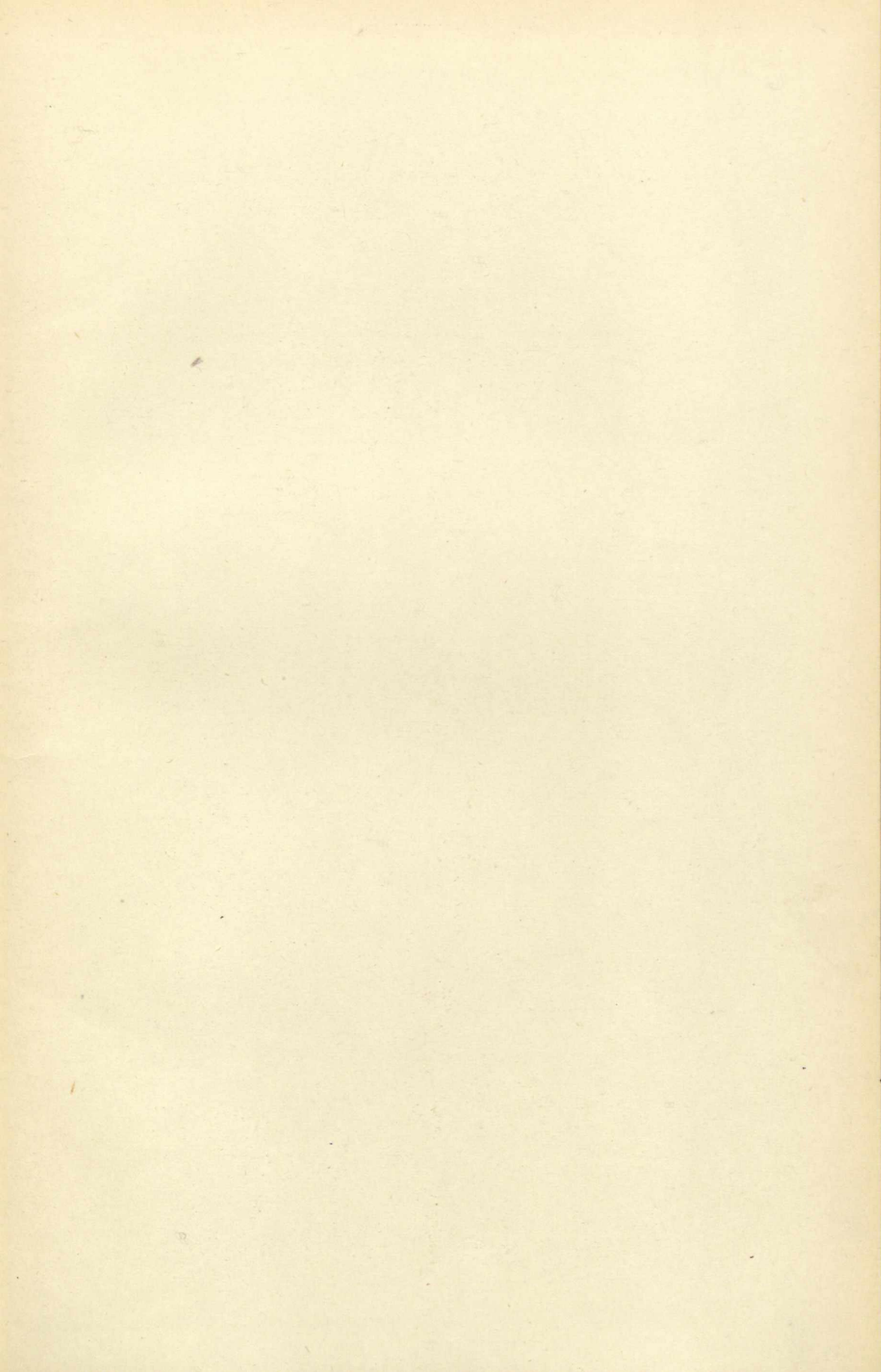
Canada. Parl. H. of C.
Standing Comm. on Banking
and Commerce, 1946.
Bill 140.

J
103
H7
1946
B3L
A1

DATE	NAME - NOM

Canada. Parl. H of C. Standing
Comm. on Banking and Commerce,
1946.

*
J
103
H7
1946
B3L
A1



SESSION 1946

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

BILL 140, AN ACT TO AMEND THE SMALL
LOANS ACT, 1939

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, JULY 2, 1946

THURSDAY, JULY 4, 1946

WITNESSES

Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of Finance.

Mr. Louis Blake Duff, President, Association of Canadian Small Loan Companies, Toronto.

(Including statement by Mr. R. W. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance)

ORDERS OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, March 29, 1946.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce.

Messrs.

Argue	Fulton	Marquis
Arsenault	Gour	Maybank
Beaudry	Hackett	Mayhew
Belzile	Harkness	McIlraith
Black (<i>Cumberland</i>)	Harris (<i>Danforth</i>)	Michaud
Blackmore	Hazen	Murphy
Bradette	Ilsey	Nixon
Breithaupt	Irvine	Picard
Cleaver	Isnor	Pinard
Coté (<i>St Johns-Iberville-Napierville</i>)	Jackman	Quelch
Dechene	Jutras	Rinfret
Dionne (<i>Beauce</i>)	Lesage	Ross (<i>Souris</i>)
Dorion	Low	Sinclair (<i>Ontario</i>)
Fleming	Macdonnell (<i>Muskoka-Ontario</i>)	Stewart (<i>Winnipeg North</i>)
Fournier (<i>Maisonneuve-Rosemont</i>)	MacNaught	Strum (Mrs.)
Fraser	Manross	Thatcher
	Marier	Tucker—50.

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, 14th May, 1946.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 and that Standing Order 63(*d*) be suspended in relation thereto.

Ordered,—That the said Committee be empowered to sit while the House is sitting.

MONDAY, 24th June, 1946.

Ordered,—That the following Bill be referred to the said Committee, viz:—
Bill No. 140, An Act to amend The Small Loans Act, 1939.

THURSDAY, 4th July, 1946.

Ordered,—That the said Committee be given leave to print from day to day 1,000 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, July 3, 1946.

The Standing Committee on Banking and Commons begs leave to present the following as a

FOURTH REPORT

Your Committee recommends that it be given leave to print from day to day 1,000 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, July 2, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Argue, Belzile, Bradette, Cleaver, Dechene, Fleming, Fournier (*Maisonneuve-Rosemont*), Fraser, Gour, Harkness, Hazen, Jackman, Lesage, Macdonnell (*Muskoka-Ontario*), MacNaught, Mayhew, Rinfret, Strum (Mrs), Thatcher, Tucker.

In attendance: Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of Finance.

(The First half-hour of the Committee's proceedings was devoted to the consideration of a Private Bill).

On motion of Mr. Fournier, seconded by Mr. Fleming,

Ordered,—That the Committee request permission to print from day to day, 1,000 copied in English and 200 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Fournier, seconded by Mr. Fleming.

Resolved,—That an Agenda Committee be appointed consisting of seven members, and that the Chairman be empowered to select the members thereof.

The following members were selected by the Chairman to constitute the said Agenda Committee, viz:—The Chairman, Mr. Cleaver, and Messrs. Blackmore, Fleming, Fraser, Irvine, Moore and Rinfret.

The Committee proceeded to the consideration of Bill No. 140, An Act to amend the Small Loans Act, 1939.

Mr. Mayhew, Parliamentary Assistant to the Minister of Finance, made a statement on the purpose and effect of the bill.

Mr. Finlayson made a review of the operations of loan companies under the provisions of The Small Loans Act, 1939, and answered questions.

At 5.50 p.m.; the Committee adjourned to the call of the Chair.

THURSDAY, July 4, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Argue, Black (*Cumberland*), Blackmore, Bradette, Cleaver, Dechene, Dionne (*Beauce*), Fraser, Fulton, Harkness, Hazen, Irvine, Isnor, Jackman, Jutras, Lesage, Low, Marier, Mayhew, McIlraith, Michaud, Nixon, Picard, Ross (*Souris*), Sinclair (*Ontario*), Stewart (*Winnipeg North*), Strum (Mrs), Thatcher.

In attendance: Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of Finance, Mr. Louis Blake Duff, President, Association of Canadian Small Loan Companies, Toronto, and other representatives of Small Loan Companies.

The Chairman presented the first report of the agenda committee as appears in this day's minutes of evidence.

The said report was adopted unanimously.

The Committee then resumed consideration of Bill 140, An Act to amend The Small Loans Act, 1939.

Mr. Louis Blake Duff was called. He submitted a brief on behalf of the Association of Canadian Small Loan Companies and was examined.

At 6.00 p.m., witness retired and the Committee adjourned until Tuesday, July 9, at 4.00 p.m., with the understanding that the Committee would then consider the Foreign Exchange Control Bill (No. 195).

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
July 2, 1946.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: If the members all have copies in their hands of Bill 140 we will proceed with that bill, an Act to amend the Small Loans Act, 1939. Is it your pleasure that the committee should first have a general statement from Mr. Mayhew, the parliamentary assistant to the Minister of Finance? (Agreed.)

Mr. MAYHEW: Mr. Chairman and gentlemen: I am sure we are all very pleased to note that one of the original members of the 1938 committee, which was the year of the foundation of this small loans legislation, is now the chairman of this committee, Mr. Cleaver. I notice also there are several other members on this committee who were on that committee at that time. I am sure they will all be of great assistance to us. I am not going to take up any great length of time in making a statement. Mr. Finlayson is here to answer any questions, and I am sure that is what we want to hear.

I might state that the reasons for bringing in this change at this time are several. Probably the one that we considered the most important is the report of the superintendent of insurance who is also superintending these small loans. Mr. Finlayson has made a recommendation to the minister that the rate be changed from 2 to 1½ per cent. That is the only change in the bill. Another reason why it was thought advisable to bring in the change at this time is that there has been a general reduction in interest rates since 1939, the year the Act was passed. Further the report of the superintendent gives the growth of the various companies, and it has been considerable. In fact, business has been more than doubled since 1939.

Mr. FLEMING: That is the volume of business?

Mr. MAYHEW: The volume of business. They seem to be in a very strong position. Further than that there was the position taken by the Minister of Finance when he was introducing the bill in 1939. He used some pretty strong statements in connection with it, and particularly with regard to the rate of interest. It is quite evident from his statement it would appear that 2 per cent was the maximum that should be charged at that time.

Then there was also a further report, which I would recommend members to read if they have not already done so, of the then chairman of the Banking and Commerce Committee. His report was made to the House at the time the bill was introduced.

I should like to make this short statement. [The Small Loans Act was enacted by parliament in 1939 to come into force on January 1, 1940. Prior to that time the three licensed small loans companies were governed as to rates of cost by the provisions of their special Acts of parliament and by an amendment to the Loan Companies Act, R.S. 1927, Chap. 28, passed in 1934, Chap. 56, restricting the rate of cost for dominion companies to 2½ per cent per month. The Small Loans Act, 1939, fixes a maximum rate of 2 per cent per month.

The Small Loans Act applies to the said small loans companies and also to money lenders, however incorporated. At the present time there are three small loans companies and fifty money lenders licensed under the Act.

The effect of the bill now before the House is to reduce that maximum rate to $1\frac{1}{2}$ per cent per month. The adoption of this rate is recommended by the superintendent of insurance as a result of the experience of the Department of Insurance in administering the Small Loans Act over the last six years. It is also the rate which has been voluntarily adopted by at least two of the licensees for all their loans and by other licensees for portions of their loans. One important money lender has adopted a rate of $1\frac{3}{4}$ per cent for all its loans.

The increase in the volume of small loan balances outstanding from 1940 to 1945 is indicated by the following:—

Year	SMALL LOAN BALANCES OUTSTANDING		
	Small loans companies	Money lenders	Totals for all lenders
1940	\$ 6,266,336	\$ 3,585,149	\$ 9,851,485
1945	13,354,915	7,074,240	20,429,155

The number of small loans companies is the same in each of the two years. The number of money lenders was sixty-five in 1940 and fifty in 1945. The larger volume of business per lender has naturally reduced the rate of overhead expense and this, combined with the effect of greater experience in the practice of lending and the general reduction in the cost of money, is believed to justify the proposed reduction in the monthly rate.

The Minister of Finance, in introducing the bill on May 24 last, said:—

The Small Loans Act, passed, I think, eight or nine years ago, places a ceiling on the interest rate which small loan companies may charge of two per cent per month. Experience has shown that this is unnecessarily high in the light of recent changes in interest rates and so forth, and it is therefore proposed in this bill to reduce that interest rate to $1\frac{1}{2}$ per cent per month. It is anticipated that the bill will be referred to the banking and commerce committee where the appropriateness of that rate can be investigated.

This was recommended by the superintendent of insurance. That is our function here now.

The enactment of the Small Loans Act in 1939 followed a prolonged investigation before the Banking and Commerce Committee in 1938 of the whole subject of loans on personal security and while there was a difference of opinion as to what the maximum rate should be, the report of the chairman, Mr. W. H. Moore, recommended 2 per cent per month. In commenting on this rate he said:—

Finally, the rate of 2 per cent per month, recommended in the draft bill must be regarded an experimental rate. In this relatively new field of finance, procedure has to be largely by way of trial; if error is made by naming a rate too low, or too high, it is subject to correction. Loans of the sort are for relatively short terms (usually a year) and it is thus possible to look forward to a correction of rate without that disastrous disturbance that follows upon legislative intervention in long term contracts. If one may judge the future of personal finance in Canada, by the development of the United States, the volume is still in the making, and legislative action should obviously be made to conform to the stages of development.

Those are the main bases for the recommendation at the present time. I hope the committee will find that the base we have started from is a correct one and that the bill will be recommended. I have nothing further to say at the present time.

Mr. JACKMAN: May I ask at whose request the legislation is being put forward? Who has requested the legislation?

Mr. MAYHEW: The recommendation of Mr. Finlayson was the first recommendation to the minister. He has requested it.

Mr. JACKMAN: Have there been complaints as to the high rates charged from anybody?

Mr. MAYHEW: I think Mr. Finlayson can give you that information.

Mr. JACKMAN: I will address my question to him with your permission, Mr. Chairman. May I preface my remarks by saying that the report read by the parliamentary assistant referred to the high interest charge. People in this business inform me that while it is a percentage charged on the amount of money involved—often less than \$100—the cost is not really an interest cost. It is a service charge of which interest is an element. I should like to ask whether or not Mr. Finlayson would agree that the statement read by the parliamentary assistant might have been closer to the facts, shall I say, if the words “interest charge” had been “service charge” or “service and interest charge of 2 per cent”.

Mr. FLEMING: Mr. Chairman, the question of procedure comes up. I have been looking over the evidence taken before the parliamentary committee of 1938 which made quite an extended investigation into the whole business done by these small loans companies, and in connection with them there was also the matter of fixation of rates. I remember it well because I happened to be in Ottawa at that time and I attended some of the sittings of that committee. Was it your thought, Mr. Chairman, and would it be the thought of the committee, that the persons concerned with this reference before the committee would be given an opportunity of making representations here? The reference itself refers to the fact that the matter is to be investigated, particularly the matter of fixation of rates, and I take it from that that we are to hear from those who are to be affected by the change, that they would have an opportunity of appearing before the committee.

The CHAIRMAN: I entirely agree with what you have said, Mr. Fleming, and what I had in mind was that I would convene the agenda committee on which all the parties in the House would have representation and that the agenda committee would determine to what extent evidence should be called, and the general procedure of the committee. To-day, so that our time would not be lost at this meeting, I thought perhaps it would be helpful if Mr. Finlayson would make a general statement. There are many new members on the committee who were not on the committee and were not in Ottawa at the time the inquiry was made in 1938. That was a very exhaustive inquiry extending over four months. Many witnesses were called. I thought it would be helpful, especially to the new members of the committee, if Mr. Finlayson would make a general statement, and then perhaps quite early we would adjourn this afternoon and the agenda committee will meet and decide in detail on the mode of procedure. We have two things to decide. One is, I take it, that we must give precedence to the bill that was referred to us this afternoon in regard to foreign exchange control. I would anticipate that we must give that bill right of way because I believe that bill must be passed this year if the orders in council are to continue in force. What I had in mind was our mode of procedure would be entirely by the recommendation of the steering committee in the first instance, and their reports, of course, would be brought before the main committee for discussion and approval. Is that satisfactory?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Is it your wish to hear Mr. Finlayson now?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: It would make for a more consecutive and orderly hearing if Mr. Finlayson is permitted to make his statement first without questions. You can make a note of your questions and there will be plenty of opportunity for questions and answers after the statement is completed. I think it might be good business so far as presentations on behalf of the loan companies are concerned if they were allowed to do the same thing.

Are you ready to hear Mr. Finlayson now?

Some Hon. MEMBERS: Ready.

G. D. Finlayson, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman, madam and gentlemen: bearing in mind what you have just said, sir, that some of the members of this committee were not present in 1938, it might be well for me very briefly to review the record of licensees under the Act since January 1st, 1940. The Act was passed in 1939 and came into force on January 1st, 1940. Prior to that there were three lenders incorporated by special Act of the Parliament of Canada, and those lenders are still in operation, forming a group designated by the Act as Small Loans Companies. That designation distinguishes those particular lenders from others incorporated otherwise and designated as money-lenders, to three or four of them incorporated by letters patent under the Dominion Companies Act, most of them by letters patent under the various Provincial Acts, some of them operating as partnerships and some operating as individuals with trade names. Of the Small Loans Companies, two are Canadian branches of United States companies, and of that group of three one is dominant in point of loan balances, having about 80 per cent of the loan business of the group. The money-lenders licensed at the present time number fifty-one. The number, as indicated by Mr. Mayhew, was somewhat larger at one time; I think the number was as high as sixty-five in the early years of the operation of the Act. After the coming into force of the Act there were a number of lenders in the provincial field not very sure whether they wanted to become licensees or not, but in order to safeguard their position they obtained licences. Later on some of them discontinued their licences. Some were absorbed by other lenders and a few were liquidated, voluntarily I think in most cases. The growth of the volume of business has been indicated by Mr. Mayhew; roughly the increase has been in total somewhat over 100 per cent. Taking the loan balances as an index of volume, the volume at the end of 1940 was just under \$10,000,000 and at the end of 1945 just over \$20,000,000. I should have said that among the fifty money-lenders there is one predominant by reason of size.

Mr. FLEMING: Would you mind giving us the names?

The WITNESS: The names of the Small Loans Companies are: The Household Finance Corporation, a subsidiary of a company of the same name with head office in Chicago. That is the dominant company by reason of size. The other one is the Personal Finance Corporation which is a subsidiary of the Beneficial Industrial Loan Corporation of New Jersey.

By Mr. Hazen:

Q. Did you not say there were three companies?—A. The other one is purely Canadian, the Industrial Loan and Finance Corporation of Montreal. The dominant money-lender is the Campbell Finance Corporation.

By Mr. Jackman:

Q. In the money-lender group, you mean?—A. In the money-lender group, yes. I think its balances amount to about 50 per cent or more of the total for the group.

By Mr. MacNaught:

Q. Where is its head office?—A. Its head office is in Toronto. It has until recently been wholly Canadian owned, but its control has been acquired by a United States company just this year.

Q. Do you know the name of the United States company?—A. The United States company is the Seaboard Finance Company, a Delaware company operating from Los Angeles. Mr. Jackman has referred to the question of whether the charge made by these lenders is interest or something else or partly something else. That question was discussed very fully in the committee at the time and the definition of the term "cost of a loan" is "the whole of the cost of the loan to the borrower whether the same is called interest or is claimed as discount, deduction from an advance, commision, brokerage, chattel mortgage and recording fees, fines, penalties or charges for inquiries, defaults or renewals or otherwise, and whether paid to or charged by the lender or paid to or charged by any other person and whether fixed and determined by the loan contract itself, or in whole or in part by any other collateral contract or document by which the charges, if any, imposed under the loan contract or the terms of the repayment of the loan are effectively varied." That seems a lot of wording to express the cost, but much of that formula is there for the purpose of preventing evasion from charges by the use of collateral contracts or by the use of third parties acting as agents or otherwise for the lenders. After all there is not very much there—except the reference to the collateral contracts and other persons—that could not be read into any interest rate. It is interest and charges necessary to see that the loan is repaid and to enforce penalties if it is not repaid. That I think is a fair condensation of that definition. Whether that includes anything in the nature of service such as Mr. Jackman mentioned, I do not know. You may regard as service effectual steps to recover one's money but perhaps the borrower does not regard that as a service.

Mr. JACKMAN: Might I just say a word, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. JACKMAN: There is not much use quibbling about words, whether it is a shocking rate of interest, namely 24 per cent that the department allows to be charged now, or whether it is a reasonable service charge. It is difficult, perhaps, to have an exact definition.

The WITNESS: Yes.

Mr. JACKMAN: Perhaps if we are given to understand later, when we examine some of these companies and find that the companies themselves borrow money from the banks—and that was adduced as one of the reasons why the rate should be reduced, because it cost 1 per cent or 1½ per cent less to borrow from the banks now than it did in 1940—and that the interest charges are a very small component of the total operating expenses of the small loans companies, I think then we will realize that we should call the 24 per cent by what is the major constituent in the cost of doing business. Is it the cost of the lenders getting money—because after all, they are only handlers of money—or is the major constituent in their cost the servicing of it, not just collecting it? Suppose you have a \$100 loan that the borrower is reducing the balance on. The average loan is \$50. I do not think anyone in this room would be bothered with that type of business no matter what the rate was, because it is too much of a nuisance and the clerical staff is very great in connection with it. What I am suggesting is that in the cost of doing this business, as I am informed—and subsequent investigation will either bear me out or otherwise—the interest out element of the loan company, what they pay the banks for the money, because they have to get the money from them, is a very small percentage of the total and therefore I do not like the use of the words "interest charge of 24 per cent"

unless that is a wholly fair statement. I think it is better to call it a service charge; and if we have reason to change our minds afterwards and find that service is not the main element, then we can revert to interest charge. But I do not want the committee to feel that interest is the only element, as I thought it was when I was first broached on this matter, and 24 per cent was enough to shock anyone's conscience. But on the figures given to me it would seem that the amount really was relatively small. We shall find out the exact figures later.

The WITNESS: I am inclined to agree with Mr. Jackman that the wide spread between the ordinary rate of interest that we are all familiar with and the rate of cost under this Act may be due to two factors. One is the short term of the contract. They are short term contracts and have to be looked after at intervals of not more than 10 months, a year or 15 months. The other factor is the small size of the loan; the accounting and clerical services for a loan of \$50 or \$100 is almost as great as for a loan of \$1,000 or \$10,000, so that there is a point in what Mr. Jackman has mentioned. That does inflate the cost of the loan.

Mrs. STRUM: Mr. Chairman, I should like to ask a question at this point. I have not been on this committee before and I have had no experience with small loans companies, although I am a member of a credit union which charges only one-half of that, 1 per cent.

Mr. JACKMAN: A month?

Mrs. STRUM: One per cent per month.

Mr. JACKMAN: Shocking!

Mrs. STRUM: And they make money. They expand on their earnings. In fact, they make quite considerable profits at 1 per cent. I should like to know whether the 2 per cent rate mentioned here covers all the costs of the loan or are other costs charged in addition to this by the small loans companies?

Mr. JACKMAN: Yes.

The WITNESS: I think this rate of 2 per cent per month is intended to cover every charge that can be made to the borrower.

By Mrs. Strum:

Q. Does it in actual practice, or are there other things charged?—A. It is in actual practice, if the borrower lives up to his contract. If he defaults and has to be proceeded against there may be court charges, there may be lawyers' fees authorized by the laws of the provinces.

Mr. JACKMAN: I think Mrs. Strum wants to know whether or not the companies ever get more than 25 per cent out of it by collateral arrangement and you were careful to read that worded definition which prevented them from doing it.

By Mrs. Strum:

Q. Outside of court procedure, outside of litigation, in the ordinary method of collection does the borrower have to bear this 2 per cent interest which is supposed to cover those costs, or is he in addition charged other costs involving collection?—A. No, I should say not if the borrower lives up to his contract. The 2 per cent per month includes everything the borrower has to pay.

Q. I would like to know where we get the basis for these loan shark stories?—A. The loan sharks are the ones that charged up to 100 per cent per annum or more. Those are the ones we had before us in the committee of 1938.

Q. Are they bootleggers in the money-lending market? Are they unregistered and unlicensed?—A. I can only refer the committee to what I am told and that is that the operation of this Act has eliminated the bootlegger in the loan field.

Mr. JACKMAN: Hear, hear.

The WITNESS: That is, the type is now scarcely known in the centres in which previously he flourished. Now, I cannot prove that, but that is what I am told; the effect of the Act has been very good, perhaps more so than was expected, in eliminating these very high rates.

Mr. JACKMAN: May I ask Mrs. Strum this question: do you know about what the average size of loan is in your credit union?

Mrs. STRUM: The loans vary all the way from a matter of \$2 to several hundred dollars.

Mr. JACKMAN: For farmers carrying on operations, or personal needs?

Mrs. STRUM: Personal needs in case of an emergency. At La Flesche, Saskatchewan, the credit union has built up large capital reserves and has made exceptions and given loans to people to pay off a mortgage, but ordinarily these are the personal type of loans for a holiday or an operation—a personal loan.

The WITNESS: The credit unions were represented very completely in the 1938 committee. We had representatives from the Antigonish co-operative and from Quebec which is the originator of the credit unions in Canada, and from other centres, but I confirm what Mrs. Strum has said: the rate is 1 per cent a month or 12 per cent per annum, and in some cases I think less.

Mr. BELZILE: One per cent is the maximum.

The WITNESS: Yes.

The CHAIRMAN: I wonder if it would not be wise to permit Mr. Finlayson to carry on with his presentation. All of these angles will need to be fully discussed, but I suggest that later would be the time.

The WITNESS: Perhaps I might touch on the changes in the rates that have been made voluntarily by the vendors since 1940. Up until 1943 practically all the vendors and small loans companies charged the maximum rate of 2 per cent. In October of 1943 small loans companies, and the largest of the money lenders, modified somewhat their rates in respect of the larger loans—\$300 or over—the effect being to make the portion of such a loan above \$300 subject to a rate of 1 per cent per month until the loan is reduced to \$300; thereafter the reduced balance of \$300 was charged 2 per cent per month, and that element, the \$300 element, was subject to 2 per cent a month throughout the whole term of the contract, so that the effect of such a modification in any loan, even a loan for \$500, was not very substantial. In January of 1945 the largest of these small loans companies, the Household Finance Company, reduced its rate to a straight $1\frac{1}{2}$ per cent per month, and a short time later the other two small loans companies adopted the same rate, but limited to loans for \$300 and over. That is, for a loan of \$300 or over those other companies charged a straight $1\frac{1}{2}$ per cent per month. About the same time the Campbell Finance Company, the largest of the money lenders, reduced its rate to $1\frac{3}{4}$ per cent for all its loans; that is, I think, the situation to-day.

Now, the company which reduced its rate to $1\frac{1}{2}$ per cent for all its loans in 1945 does not appear to have suffered. At the end of 1944 it had \$9,700,000 of balances; in 1945 it had \$11,250,000. The Campbell Finance, which reduced its rate about the same time, had balances at the end of 1944 of just under \$3,000,000 and at the end of 1945 of \$3,800,000.

Mr. JACKMAN: Was there any suggestion or even a hint from you or your department that those companies might reduce the monthly rate charged, or was it entirely voluntary on their part?

The WITNESS: I think it was voluntary. In 1939 we thought 2 per cent was a fairly high rate, and I had the feeling that with increased experience in lending that rate could be reduced; but so far as anything in the way of a

demand—even if we had the right to make such a demand—is concerned, there has been nothing of the kind. I am inclined to think in these reductions there was a very healthful sign of the benefits of the competitive system, and so far as I know the deductions have been without injury to any of the lenders that have put them into effect. We in the department, as administrators of the Small Loans Act, have had before us continually the extract from the report of the chairman of this committee in 1939 which was read or referred to by Mr. Mayhew. In the committee there was a wide difference of opinion as to what the proper rate should be. The department on the basis of the experience before us at that time took the position that a 2 per cent rate was adequate for an efficient lender. Some of the lenders wanted $2\frac{1}{4}$, some $2\frac{1}{2}$, and I think one was inclined to favour 3 per cent for a large portion of its loans. The decision of the committee was that 2 per cent should be fixed as the maximum in the report to parliament, and as indicated in the chairman's report that was regarded by the committee as an experimental rate to be varied later on as the experience of the lenders might dictate.

I suppose one could hardly look to the lenders themselves for a suggestion as to when a lower compulsory maximum rate should be fixed. We in the department have considered that it was our duty to follow as closely as we could their experience and draw it to the attention of parliament when the time seemed to have arrived for a reduction in the rate. We have little doubt that time has arrived.

If I am not taking too long I might mention two or three points on which I think some reform can be made. The competitive system is a good system but it is liable to prove expensive. We have in the cost of advertising of most of these lenders an illustration of that element of cost. Before 1939 I think the average cost of advertising was not far short of 10 per cent of gross revenue. At the present time while some lenders exceed that I think the average for small loans companies has come down to 5 or 6 per cent and the money lenders to an average of 8 or 9 per cent.

We are interested in other classes of companies such as ordinary loan companies making loans on mortgages. For those companies reporting to the department in a recent year, 1944, the average cost of advertising is .4 of 1 per cent while the average cost of all lenders, small loan companies and money lenders, was 6.4 per cent.

By Mr. Jackman:

Q. Of gross revenue?—A. Of gross revenue.

Q. It could not happen, Mr. Finlayson, I suppose, that the company which does the biggest business and quotes the lowest rate also has the highest percentage of advertising cost?—A. That was true at one time but I think there has been a reform.

Q. We are getting into a very broad economic subject there.—A. I have two rates here, for instance—and I am not going to name the companies—one with an advertising rate in 1944 of 11.4 per cent of gross revenue, and another of 10.7 per cent of gross revenue. All are not in that class. I do not say that all have an undue expense in advertising, but I do say that here is one point at which expense can be reduced with benefit to the borrower.

Q. Mr. Finlayson, did you not just say a moment ago that the company which does the biggest volume and quotes the lowest price to the public also had at one time, anyway, the highest advertising ratio? Advertising may look like a useless expenditure but it happens in our system of mass production and mass handling that if you get a big enough volume it more than absorbs the advertising costs.—A. I would not say that has been wholly true. There is no doubt that the effort was to secure a larger volume of business.

Q. And get their costs down. What business is it of this committee to determine how much should be spent by any particular company? I am asking the chairman this question. What concern is it of this committee as to how much of its gross revenue should be spent by any particular company? Surely people know their own business and not parliament. Would you care to answer that? Is that not outside our scope, telling people how to run their business and how they can save money?

The CHAIRMAN: Up to a point I would be inclined to agree with you, but I think it is the duty of the committee to examine the financial statements of the companies so that we will have an over-all picture. If as a class advertising is not showing results and is not pulling down costs why then it is useless.

Mr. JACKMAN: Under the competitive system we are talking about it would soon be stopped. What about movie advertising? We would not have the industry without it.

The WITNESS: There are other points at which I think savings can be effected, but acting on the suggestion of Mr. Jackman perhaps I should not mention them at the present time.

Mr. JACKMAN: Go ahead.

The CHAIRMAN: Is it the wish of the committee that Mr. Finlayson should make his presentation as he views it as superintendent of insurance?

Mr. FLEMING: Have Mr. Finlayson complete his statement and we will have it on the record.

The WITNESS: There is one other point that has occurred to us, and I must make it clear we are not trying to run these companies. As I said, I feel it our duty to bring before the committee points for consideration, some of which the members of the committee may think have merit and others without merit. There will be no hard feelings on our part if the latter proves to be true.

I have mentioned the fact that some of the money lenders are operating as partnerships. Some of the incorporated companies are what you might call private companies owned by a very small group of individuals who have financed the lenders. We have found in some cases what appears to be a withdrawal of profits shown in their financial statements as salaries and directors' fees, the result of that being that an undue outgo under that heading is shown by their statements.

Without mentioning the companies or lenders I would take a group of ten money lenders—not, I think, including the dominant one—showing gross interest earned in 1944 of \$133,000 and disbursements for salaries and directors' fees of \$61,250.

By Mr. Jackman:

Q. Is that executives' salaries or clerical and executive?—A. Salaries.

Q. All salaries?—A. And directors' fees representing 46·1 per cent of the gross interest earned. For all fifty lenders, that is the money lenders, salaries and directors' fees amounted to 30·9 per cent of earnings. Comparing that again with other institutions with which we are familiar, we have the mortgage loan companies, we have salary and directors' fees 12·8 per cent of the gross income. Now there again there may be good reason. The lenders presumably know their business, but the spread between the two classes of institutions is so wide that it appeared to us that it was a point which might be brought to the attention of this committee.

By Mr. Hazen:

Q. Would not the interest return of the large mortgage companies necessarily be larger?—A. Some of them would, some would not.

Q. Could you make a proper comparison between the two? After all, they have a very much wider income with much fewer people they are loaning to. How could you make a comparison between the loan companies with large loans and these small lenders?—A. I haven't our mortgage and loan report here. I will produce it shortly.

By Mr. Jackman:

Q. I thought you said that the fifty lenders had an average combined cost of 30·9 per cent, and now you are speaking about a smaller group which has a higher rate. Is there a difference in the rates charged? Do they all have to charge the same?—A. We are speaking now of that group of ten I mentioned with 46·1 per cent.

The CHAIRMAN: Yes.

The WITNESS: That is the average for ten lending companies. That is the average aggregate rate. I should say that they are all charging the same rates, the maximum of 2 per cent per month.

Q. Would not that be a question for the revenue department rather than for this committee?—A. Well, it may be.

Q. Internal administration after all is their own affair.—A. The other point which may be affected, this would also affect the national revenue department, that is if the rates are lowered profits will be lowered and disbursements for taxes would be less.

Q. Just getting back to the ten; are we to understand it varies, the average for the fifty lenders is 30·9 per cent some will be in the higher brackets?—A. Yes.

Q. What has that got to do with us? Where is the saving for the group, the overall savings that we are to embody in the law which we are to consider when we are fixing the rate? What has the 46·1 per cent for the ten to do with the average of 30·9 per cent? The fact that some have a higher ratio than others is not our concern so much. The only thing we are interested in I suggest is the average rate of 30·9 per cent.—A. Very well, we will take the 30·9 per cent. That is good enough for my purposes.

Q. I thought you were drawing the attention of the committee particularly to those people who were so much higher?—A. That is the fact.

Q. You must have given it to us for some purpose, possibly to suggest that some people were making too much money. I think all we are concerned with is the average of 30·9, and you have stated that that was good enough for your purposes?—A. Yes.

By Mrs. Strum:

Q. Is not the case in point that these salaries are charged up against the cost of running the business, using that cost to justify a higher interest rate; is that the point?—A. Certainly.

Q. I say we are here to consider a reduction of the interest rate. Is it not a case in point that it is a dishonest man who charges more than is right?—A. I would not state it that way.

Q. Perhaps not dishonest, perhaps it is legal; but not a proper charge.—A. I think these lenders are quite honest and straightforward. That has been our experience. These figures that I have given reflect the actual facts.

Q. What I meant was, it is an overcharge.—A. It is certainly a higher charge than other lenders in other fields find it necessary to make. Now, on the question of taxation, some of the companies have been paying very large amounts of taxes on very large profits. I realize that if profits are reduced taxes will be reduced, and speaking from the standpoint of the government, I think no one in the government will worry if we lose taxes by reducing rates below 2 per

cent paid by needy borrowers who have to put up 2 per cent a month now for their accommodation. Even if profits were reduced to where taxes almost disappeared I do not think anyone in the revenue department or elsewhere would have very much worry.

Now, I have taken too long, Mr. Chairman, on this statement. I have overstepped your mark. I am merely touching on some points I realize that we will be called upon to give more detailed figures. I can only state our general conclusion, and that is where you look at the financial statement you see that at the present time there is a very large margin of revenue over expenditure. I have mentioned the points that seemed to indicate where expenditures could be reduced without injury to anyone, and how a reduction of rates to 1.5 per cent per month can be amply justified.

Mr. FLEMING: May I ask one or two questions at this point?

The CHAIRMAN: Yes.

By Mr. Fleming:

Q. In the first place, Mr. Finlayson, you have given us figures on the volume of business done by the Small Loans Companies. Have you any figures on their profits?—A. Yes. Perhaps I had better give you the 1944 figures, as they are more reliable.

Q. The 1945 figures are not available yet?—A. Yes, we have them but they are not yet verified, the accounts have not all been examined, and I would like for our present purposes to use the 1944 figures. Later on I shall, of course, produce the 1945 figures.

By Mr. Hazen:

Q. What report have you there?—A. This is the annual report which the Department of Insurance is required to submit to the Minister of Finance annually, and which is laid before the House.

Q. What is it called?—A. It is the report of Small Loan Companies and Moneylenders. The latest in print is the one of 1944. I think we have prepared the figures for 1945. Taking first the Small Loans Companies for 1944—I should explain here that money lenders have loans not classed as small loans, that term meaning loans of \$500 or less. Many lenders make loans in excess of \$500.

Q. Have they the right to do that under the Act?—A. There is no prohibition and they have the right under their charters and they exercise those rights. However, we have tried all through our reports to segregate the figures into the two branches, one being the small loans and the other the other class of loans. Mr. Fleming has asked for the net profit for these three companies. In 1944 the net profit, that is the total revenue over the total expenditures, was as follows. Perhaps I had better give you the figures. It does not mean very much without them. I am dealing now with small loans and small loans only. The income earned on small loans for all three companies was \$2,439,000 in round figures. The other items of income were negligible. The total expenditures, on small loans again, were \$1,815,000; and the net profit on small loans—that is income earned over expenditure—was \$645,670. I see that I have the totals for 1945 inked in there for comparison.

By Mr. Fleming:

Q. Could I have that profit there as a rate of return on capital, the rate of earnings on capital, as well as the figures?—A. I am giving you just what it is stated to be, the excess of income earned over the expenditure. I will give you the headings—

Q. No, that is not what I want.

The CHAIRMAN: The question was relating it to the capital.

Mr. FLEMING: Relating the figures Mr. Finlayson has given to the capital invested, so that we may have some conception of the rate of earning on capital.

Mr. HAZEN: The money that is earned on the capital invested each year.

By Mr. Jackman:

Q. This net profit would be before taxes, of course?—A. No, that includes taxes as a disbursement.

The CHAIRMAN: That is after taxes.

By Mr. Jackman:

Q. It includes income taxes?—A. Yes. They are deducted as an expenditure. As to the capital item, the three companies have borrowed money, which is one source of capital, \$4,800,000; the capital stock authorized is \$6,500,000; subscribed and paid, \$3,805,000.

Q. What about reserves, earned reserves ploughed back?—A. Total reserves for bad debts, small loans—

Q. No, capital reserve, ploughed back; earnings over the year. What I want to find out is how much money have the proprietors in this concern and to express that or relate it to the \$645,000 net profit, so we can get an average return. I think you know what we want.—A. You would expect that probably in an institution with liabilities to the public, but these have none; it is not their practice to carry what is ordinarily termed a general reserve. The balance is carried as a balance of profit and loss.

Q. How much is that?—A. The total for the three companies at the end of 1944, \$2,905,000 and at the end of 1945, \$3,970,000.

Q. What I want to get at is how much proprietor's capital is in the business; it is \$3,805,000 as of a given date and \$2,905,000 profit and loss which is their money. That is the amount of capital. There is no other surplus account.—A. The only reserve they have is reserve for bad debts which is \$578,000.

Q. We will assume that is a real contingency.—A. Well, in some cases that may be needed; in others it may be a generous provision for losses in the future.

Mr. FLEMING: Mr. Chairman, I had assumed, apparently wrongly, that the statement which Mr. Finlayson has before him would show in one of its columns the rate of return earned on capital.

The CHAIRMAN: It is now a quarter to 6, gentlemen—

Mr. FLEMING: If it is not broken down in that way, it may be that we are going to spend a good deal of time in getting it.

The WITNESS: Oh, no.

Mr. FLEMING: If we have got to have the figures written into the record from the whole statement it would perhaps be simpler, if the answer to my question is not available at once, to circulate copies of that statement that Mr. Finlayson is reading and also provide the committee with the 1945 figures which have not been finally certified yet.

The WITNESS: Yes.

Mr. FLEMING: If it has got to be a matter of calculation now, I do not know that we should take the time at the moment to do it.

The CHAIRMAN: I think the suggestion is a helpful one. It is a quarter to 6 now and I will endeavour to obtain copies of this report for all members of the committee and see that you get them through the mail.

Mr. PINARD: Postpone it and resume the questioning after we have got the information.

The CHAIRMAN: I have a very distinct recollection from the evidence taken before the committee in 1938, Mr. Finlayson, that some of these parent companies did not charge interest on the money loaned and all of these factors must be taken into consideration when computing the actual profit returned on the employed capital. The employed capital that is borrowed on a borrower basis and interest paid for it is not employed capital for the purpose of figuring a profit. But if it is borrowed without interest, I should suggest it is employed capital.

Mr. FLEMING: If you are having that material prepared, Mr. Chairman, would you also circulate among the members of the committee copies of the report of the chairman of this committee in 1938 which has been referred to?

The CHAIRMAN: Yes. I will endeavour to have mimeographed copies made. It is not too long to be mimeographed. The copies are not available, but I will endeavour to make them available to the committee.

Mr. HAZEN: Will the figures show the losses that have been sustained by these companies over the years? Have we the figures available?

The WITNESS: Yes. We have some figures on that point.

The CHAIRMAN: As to the time of our meeting, the other bill has been referred to this committee. Is it the wish of the committee that we should spend one more meeting on small loans before we swing over to the Foreign Exchange Control bill?

Mr. JACKMAN: Let us leave it unless we can finish it.

Mr. MAYHEW: I more or less gave an undertaking to one of the members of the committee taking an interest in the budget speech and preparing for it, that the bill on foreign exchange would not be dealt with until Monday next.

The CHAIRMAN: Would Thursday afternoon be satisfactory to the members for a meeting of the committee? There are so many other committees meeting that the morning appears to be impossible.

Mr. JACKMAN: Will the budget not be resumed then? The budget may be resumed on Thursday.

Mr. FLEMING: The Radio Committee is having a long session that day. I wonder if we could meet at 2 o'clock or 1.30?

The CHAIRMAN: How would it be to adjourn now to meet at the call of the chair and the agenda committee will decide when we shall meet. Is that satisfactory?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: As to the agenda committee, the motion directed the chairman to name the agenda committee. I find that members are working under very heavy pressure and many of them are busy in other committees. I am going to suggest these names and if any members will be unable to act on the agenda committee, I wish they would please indicate that fact soon. The names are as follows: Mr. Rinfret and Mr. Moore, Mr. Fraser and Mr. Fleming, Mr. Blackmore and Mr. Irvine.

Mr. JACKMAN: Good. Carried.

The Committee adjourned at 5.50 p.m. to meet again at the call of the chair.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
July 4, 1946

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. H. Cleaver, presided.

The CHAIRMAN: We have a quorum and while I would prefer not to go on in the absence of Mr. Finlayson, who has been delayed for a few minutes, there is one little routine matter we could perhaps deal with to save the time of the committee. Our agenda committee met and has a brief report to make. I will ask the clerk to read it.

(The clerk read the report of the agenda committee as follows:)

"Your Agenda Committee met on Wednesday, July 3, and now begs leave to present its first report.

With respect to Bill 140, An Act to amend the Small Loans Act, 1939, your committee recommends as follows:—

1. That Mr. Louis Blake Duff, President of the Association of Canadian Small Loan Companies, be heard at this day's sitting.
2. That arrangements be made to call key witnesses representing
 - (a) Small loan companies
 - (b) Money lenders
 - (c) Credit unions
 - (d) Chartered banks.

It is further recommended that following this day's sitting, consideration of the said Bill 140 be suspended until the committee has disposed of the Foreign Exchange Control Bill.

All of which is respectfully submitted.

HUGHES CLEAVER

Chairman. "

The CHAIRMAN: What is your pleasure in regard to the report of the agenda committee?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Then there are two or three little matters arising out of this report that we could perhaps discuss while we are waiting. The agenda committee felt that in order to keep this enquiry within bounds, if possible, we should arrange to have simply one spokesman or a pair of spokesmen for each of the four groups who are now carrying on this type of business in Canada. It was suggested, just running them over one at a time, that perhaps the small loan companies would be willing to agree among themselves as to the witnesses who should make the presentation and present to the committee whatever material the small loans companies wish to give to the committee, and the same thing in regard to the moneylenders. As to the credit unions, Mrs. Strum raised that point. She is not here at the moment. Has any member of the committee any suggestion as to who should be called as a witness to present the picture in regard to the operation of the credit unions in this field?

Mr. JACKMAN: Are the credit unions going to be affected by the suggested change in the Act?

The CHAIRMAN: No, I think not. But the agenda committee felt that as the proposed amendment is an amendment rather drastic in its character, the committee should briefly review the entire picture so far as all the lenders in the field are concerned.

Mr. JACKMAN: If we are not going to pass legislation which affects the credit unions, what is the use of our wasting our time when we have so much else to do, with covering the general theory of how a credit union operates? We cannot stimulate their field of activities. They are quite content the way they are operating. If they have merit to them, as I presume they have, they will just naturally grow. I am not in the least inquisitive at the moment or at this season of the year in learning more about credit unions or mortgage banks or anything else. What I am interested in more than anything else is whether or not the rate of interest on these small loans should be reduced from what it is.

Mr. IRVINE: Would you not be interested if the credit unions can do this for $1\frac{1}{2}$ per cent where the others charge 2 per cent?

Mr. JACKMAN: If you are talking about the rate of interest of 1 per cent a month instead of one and one-half, that is another question. What are you going to do about the credit unions? Have they asked to come here?

Mr. LESAGE: We would want them as a matter of comparison.

Mr. BRADETTE: Yes. There would be no useful purpose except for the matter of comparison, so far as understanding the credit union is concerned.

Mr. IRVINE: One of the difficulties is that we cannot call the people who borrow from these companies. We can only hear those who lend. We have got to get some way of comparing one side of the business with another, so far as I can see. I do not know how otherwise we can arrive at any fair decision.

Mr. JACKMAN: The point at issue seems to me to be whether or not we are to pass legislation reducing the rate from 2 per cent to $1\frac{1}{2}$ per cent per month, and I cannot see why the credit unions—inasmuch as I understood Mrs. Strum the other day to say they charged only 1 per cent per month—should be called at all. It does not seem to me to be part of the question.

The CHAIRMAN: Our difficulty, Mr. Jackman, is this. I fancy you will find this committee in its viewpoint quite similar to the committee of 1938. On that committee there were some members who felt that 1 per cent per month was quite high enough. I fancy you will find some members of this committee who feel that way to-day and who will want that angle canvassed. Then you will find others who think the other extreme. They think the present rate is the correct rate and should not be amended as the bill proposes. You will find a third group who think that the proposed bill reducing the rate to $1\frac{1}{2}$ per cent is the correct amount. It would be my hope that after studying the whole problem, after treating all groups fairly and giving them an opportunity of full hearing, the committee would reach a reasonably unanimous decision; but our only hope of doing that would be after hearing evidence from all three groups. It will take some time, but I rather think that is inevitable.

Mr. JACKMAN: Why not call the chartered banks, because I find that I can get a personal loan from them for 1 per cent a month.

The CHAIRMAN: That comes under the next heading. The agenda committee recommends that as well.

Mr. BRADETTE: Before you leave that, Mr. Chairman, may I ask if the credit unions made any move asking to present a brief here?

The CHAIRMAN: No.

Mr. BRADETTE: Have the loan companies made any move to be represented here?

The CHAIRMAN: Yes.

Mr. BRADETTE: That is the one difference there is between the groups.

The CHAIRMAN: Yes.

Mr. JACKMAN: What are the terms of our reference? Are you sure that an investigation of the whole theory of personal banking comes into it?

The CHAIRMAN: No.

Mr. JACKMAN: Or have we one particular thing to do?

The CHAIRMAN: The reference is simply to consider Bill 140 and Bill 140 in effect reduces the interest rate on small loans from 2 per cent to 1½ per cent per month.

Mr. JACKMAN: I think we are going very far afield. I do not know who was on the steering committee, but it seems to me that we should confine ourselves to whether or not the interest on small loans should be reduced from 2 per cent to 1½ per cent. That is the job that has been assigned to this committee.

The CHAIRMAN: The committee has adopted the report of the agenda committee and this report recommends that arrangements be made to call in witnesses representing those four groups. Having adopted the report, my question was whether any member of the committee had any suggestion to make as to who would be a suitable witness or witnesses to call representing the credit unions.

Mr. LESAGE: Mr. Chairman, would it be in order to call a senator, because Senator Vaillancourt is one who in the province of Quebec knows most about the Caisses Populaires, which are credit unions. However, he is a senator.

Mr. HAZEN: Is there any government official we could call? Do the credit unions have to make any returns to the government? We want to know how the credit unions operate, what interest they pay, what their profits and losses are. If we could get that in a concise form from somebody, I think that is the information we want.

Mr. LESAGE: That return is made to the provincial government.

Mr. DECHENE: They operate mostly under provincial charter.

Mr. LESAGE: They do not make any report to the dominion.

The CHAIRMAN: Members of the committee can keep that question in mind and any who have any suggestions on that point please send them to the clerk of the committee.

As to the chartered banks, the agenda committee had in mind that we will ask the Bankers' Association to send one witness to make a report as to the volume of business which the banks are now doing in this field and as to the rates which they are charging. If there are no other matters arising out of the agenda committee's report, is it the wish of the committee now to hear Mr. Duff? I do not think we should wait any longer for Mr. Finlayson.

Mr. ISNOR: Before you call on Mr. Duff may I ask you a question? Has the Small Loans Association, as represented by Mr. Duff, made application to you that Mr. Duff be heard?

The CHAIRMAN: They wired asking for that.

Mr. ISNOR: Has any other organization made any request?

The CHAIRMAN: No, except the Toronto Board of Trade. The Toronto Board of Trade wrote a letter to the Minister of Finance. I read that letter to the agenda committee. If it is the wish of the committee, as it is not a long letter, I will read it now to you.

Mr. ISNOR: My purpose in asking that question was this. In my opinion we should not go out and seek those whom we wish to hear. I feel that through

publicity of the purpose of this bill, if it is of interest to the lending organizations, the credit unions or anyone else, they naturally will make application to this committee to be heard.

The CHAIRMAN: I think that is quite true, and that is the point. But the difficulty is that this bill has reached the Banking and Commerce Committee at such a late stage in the session that we do not want to be put in the position of having folk who are already in the field coming to us, when we should have our bill reported, and asking to be heard. The letter which the minister received from the Board of Trade of the city of Toronto is a short one, and I will read it. It is dated June 29, 1946 and reads as follows:—

House of Commons Bill 140

An Act to amend the Small Loans Act, 1939

DEAR MR. ILSLEY: Members of this Board engaged in the small loans' field are greatly interested in House of Commons Bill No. 140 amending the Small Loans Act, 1939. As might be expected, they are apprehensive concerning the effect on the business of many of them of the proposed reduction of the monthly interest rate from 2 per cent to 1½ per cent. In this connection they have arranged for chartered accountants to make certain investigations among the operators with a view to revealing costs of operation with relation to the adequacy of an interest rate of 1½ per cent per month.

At the moment this Board does not know whether it will have any recommendations to make concerning Bill No. 140. However, it is understood that in any event members engaged in small loans' operations plan to make certain representations direct.

For this reason the Board would appreciate greatly receiving advice as to when Bill No. 140 is in committee stage and representations can be received. Information on these points will be passed on to interested members. If it should be that the Board of Trade itself wishes to submit representations, necessary arrangements for an appointment will be made. That letter was promptly answered advising them that the bill is already under consideration. Is it the will of the committee that we hear Mr. Duff now?

Some Hon. MEMBERS: Agreed.

Mr. Louis Blake Duff, President, Association of Canadian Small Loan Companies, called.

The WITNESS: Mr. Chairman and members of the committee, I wish to thank you on behalf of the industry which I represent for your kindness and courtesy in allowing us to give to you what we feel to be the case against the proposal in Bill 140.

Mr. IRVINE: Before the speaker goes on, may I ask if he has been sworn?

The CHAIRMAN: No. It is not our practice to swear anyone.

Mr. IRVINE: We just curse him, then. All right.

The WITNESS: I will take the oath, Mr. Cleaver, if that is your wish.

The CHAIRMAN: It is not our practice.

The WITNESS: I am glad to have Mr. Finlayson here. We may now go ahead. Two or two and a half years ago an association was formed of the small loan companies in Canada. We have a membership of about 40 and we represent about 95 per cent of all the business done in small loans in the country. I was

asked by that association, of which I am president, to present a statement to your committee for your consideration. Naturally it is going to be a selfish statement, representing self-interest in the matter. [Mr. Finlayson has presented the bill to you purely from the viewpoint of public interest, which is the highest interest after all; and with that, of course, we have no complaint. I am going to give you some facts about the thing, and I am going to give you some opinions on it too, if I may; you will put what valuation on them you think they are worthy of. The members of this committee who have been through the mill eight years ago know a great deal about the small loans business. It is a highly technical subject, as you gentlemen know, and you have a great advantage over others who are coming fresh to a very great subject. That investigation ran over months in 1938, culminating in 1939 in the bill which we have representing the first Dominion Act to deal with this very important matter. It affects the fortunes of literally thousands of people and it affects the businesses of some 60 or 70 concerns in our country. The government in preparing for this bill brought to Ottawa what they thought was the very best advice obtainable on earth, not advice for the companies or the loaning of money, but advice in the public interest. They brought two men in particular and to their reputations I should like to draw your attention. One was Leon Henderson, an internationally noted economist. He was for 8 years in charge of that work in the Russell Sage Foundation, mark you, working in the public interest, not in the interest of the lending of money. The other was Mr. Bunce, who occupied in the state of Iowa the same position as Mr. Finlayson does here. He had at that time a considerable experience of the Act in that state. There was the situation out of which the Act was born. I do not say that the committee or the government followed the advice of these men. They departed from it very radically. The whole tenor of the evidence was that the minimum rate should be $2\frac{1}{2}$ per cent. Their own experts, their own witnesses told them that. In the face of that, they made it 2 per cent and this was qualified by Mr. Moore and others who were on that committee as an experiment; not an experiment with a ceiling but an experiment with a floor. The question in the minds of all men then was as to whether the companies could operate at 2 per cent. It was an experiment. Would it have to be $2\frac{1}{4}$ per cent or would it have to be raised to $2\frac{1}{2}$ per cent. That was the experiment. It was not an experiment whether they could go on at 2 and later be reduced to $1\frac{3}{4}$ or $1\frac{1}{2}$. That was the origin of the Act that we are all going to study and I am studying with you on this as far as I may. If anything I say is questionable or unclear in the way I state it, I shall be glad to hear from you and we will go on down from it as best we can.

The purpose of the Act in the first place was to protect the borrower. That was the whole thing, to protect the borrower—and it was a thing very much in need of being done—to protect him against exploitation and abuse, to protect him from the unethical, the illegal practices and to protect him above all from the loan sharks; and this country was filled with them. That is a positive fact. The great fruit of the Act as it was adopted was to take a tremendous illegality and chaos really and make it into regulation and order. I am saying, Mr. Chairman, to this committee that the Act itself has achieved 100 per cent of its purpose. The borrower has been protected. The wild lender has been removed from the face of the earth and I will give you a little evidence on that, too, if you require it, before I go on. The other purpose was to give a government-supervised source for small sum cash borrowing at rates that were high enough to ensure an adequate supply of legitimate capital, so that sufficient capital could be secured to meet the needs of the borrowers in all brackets of loan size, and to give a loan service low enough as to be ethical and within the means of the borrower. [Those are the things that were done. I promised you a moment ago that I would give you something as to the working out of that Act. We have a letter here from the Better Business Bureau of Toronto. It supplements what Mr. Finlayson told you two days ago, I believe, that his

information was that the loan shark had been removed. Here is an organization that can tell you at first hand about that. This is a letter from the Toronto Better Business Bureau Inc. dated June 11, 1946, addressed to the secretary of our association and reads as follows:—

As you are aware, prior to the passing of the above Act by the government, this office was inundated with complaints regarding loan sharks, and for this reason this organization organized and operated an anti-usury department through which we obtained thousands of complaints from the public who had paid exorbitant rates of interest on small loans. Following the passing of this Act by the dominion parliament, complaints from the public regarding charges made by small loans companies practically ceased, and the few that we did receive were from individuals who had not understood what the charges which they paid covered.

It is the opinion of the undersigned that this is one of the finest pieces of legislation that has ever been passed by the dominion government to curb unfair and unethical practices, and it has meant the saving of many hundreds of thousands of dollars to the Canadian public.

That is high testimony and I quite agree with it. And this second letter is from the Better Business Bureau of Montreal, dated June 13, 1946, to Mr. Cannon, secretary of our association:—

Dear sirs: Re: Small Loans Act (1939)

With reference to your letter of June 8th, we have not received any criticism of rates charges by the companies licensed under the Small Loans Act or of their operation.

We have noticed that they have reduced their interest charges on certain classes of loans and understand that this has been done voluntarily. We are of the opinion that the companies licensed under this Act render a desirable service in the localities they serve.

Therefore I think the original Banking Committee and the House of 1939 can take credit to themselves for having done a great thing in the interests of the people. May I say, personally, Mr. Chairman, to this committee that as an operator myself for 20 years I welcome the Act with open arms because it did bring, as I say, regularity where we were in a world of chaos; and I want this committee to remember that the small loans operators themselves were in the very forefront in helping to frame this Act and get it on the books, and in the forefront in their loyal support of it, to see that the people got the benefit of it and they passed it on to them.

The commercial small-loan field is now served by three dominion chartered small-loan companies and fifty licensed money lenders, all licensed and operating under supervision of the Dominion Superintendent of Insurance and limited in their methods of operation and charges by the terms of the Act.

I am going to say here that this is something more than a proposal to cut the rate from 2 per cent to 1 per cent or $1\frac{1}{2}$ per cent. Since I came in I heard that charge referred to as an interest charge. I do not like to hear that; it is not true; it is not an interest charge; it is an all-embracing charge and includes every charge there is, and interest is only a small part in it, and it should never be referred to as an interest charge, because it is not that.

An analysis of our experience in the past will be presented to you in two studies which we have in preparation. One is complete and the other, for a reason why I shall explain, is not complete. We intended to make an analysis of what this rate would mean on the business done in 1944; that is complete, we have it here. Then we were going to give you another study on what this would do to the business of 1945. In the preparation of that study by a chartered accountant we had to go to the various companies to get their records for 1945, and we got the thing finished and Mr. Finlayson very kindly had available the

full report for all the companies for 1945 and gave us a brief of it which caused the other to go into the discard at once. But I will proceed—and I want a careful note made of this—you are dealing with something more than cutting a rate from 2 per cent to $1\frac{1}{2}$ per cent. The adoption of that rate is going to close the doors of over half the companies operating in Canada to-day, and I prophesy this—the first is not a prophecy—this is a prophecy—I prophesy this, at the end of the year you will have four companies operating in Canada and at the most not more than eight. So you have a serious responsibility in regard to those fellow citizens of yours who are in the industry. I shall give you some figures in that regard later if I may.

Now, so much for the studies that I spoke of. We have in preparation for a later session an analysis of the economics of the situation. We would like to have an opportunity, if that is agreeable to you, of presenting it to you for your information. It is for you to determine whether it is preferable to have (a) half a hundred companies operating in competition within a ceiling established by law, such competition resulting in service to the vast majority of borrowers at rates well under the ceilings; or (b) to have only two or three large companies who might survive at a ceiling rate one-fourth lower than in (a) and be a virtual monopoly. I can tell because it is heading straight that way.

The rate reduction from 2 per cent to $1\frac{1}{2}$ per cent is a cut of 25 per cent. If the licensed lender is to maintain his income he can do so only by increasing his volume of business by one-third, and by holding his costs of doing business where they are now. But he cannot hold those costs where they are now, and he may find considerable difficulty in increasing his volume by one-third.

1. The cost of doing business will increase pro rata on the basis of the number of loans made.

2. The same is true of the cost of investigation and of collection. Even the telephone bill will take a jump.

3. The number of employees required for a given number of accounts is fairly constant throughout the industry. One-third more accounts will take one-third more employees.

And here is a point that every active operator of long experience can tell you, that cost does not relate directly to the dollar volume of business done; it relates to the number of accounts that are carried. The reason for that is that it calls for just the same bookkeeping, the same investigation, the same everything to make a dozen entries on a \$50 loan as it does to make a dozen entries on a \$500 loan.

The additional costs involved in handling the increased volume of one-third requires still more volume if they are to be met and the spiral goes on up and up and may require double the original volume to make a net return equal to the 1945 return at 2 per cent.

Mrs. STRUM: Mr. Chairman, have we agreed on the matter of time? How much time are we going to give to each of the cases presented to this committee? I think it would be very unfortunate if we gave all the time to the first speaker or two and found that our time had elapsed.

The CHAIRMAN: I am in the hands of the committee. I want to say as an individual member of the committee that I think the subject is of sufficient importance that ample time should be allowed to all groups. I will promise you this, that at the conclusion of to-day's sitting we will have a discussion in that regard. I would suggest, however, that we could get a better presentation if the witness is allowed to make his presentation without interruptions or inquiry.

Mrs. STRUM: All I wanted to know was how much time this committee is going to devote to this bill?

The CHAIRMAN: Whatever time is necessary.

Mrs. STRUM: There will be ample time, then?

The CHAIRMAN: Yes.

The WITNESS: I was in hopes of having some little opportunity of talking more freely in Ottawa than at home.

Bill 140, as it stands, has a rate equal to that of the lowest quoted rate in the Canadian small-loan field. In part only. It is in one respect lower; that is in the bracket over fifteen months, lower than the lowest rate we have in Canada to-day. Is it the aim that the operator referred to, with the aid of the government—of this committee in fact—is to sound the note for all the licensees in Canada? If that is the aim then the government should pass hundreds of bills fixing selling prices on a country-wide scale at the lowest prices quoted by the largest operator in the various lines. Every corner grocery must meet the price of A & P in soap sales, every druggist meet Woolworths in tooth paste, every tailor must quote the Tip Top price. In that happy era we will all buy Buicks at Ford prices.

Is it the aim to make big business bigger and the small business smaller or to eliminate the small business altogether? I will come back to that if I may.

Now, then, as to what happens, I am able, madame and gentlemen, to give you abundant evidence from experience as to what will happen in Canada if we have this bill. Fortunately, there is lots of experience. In the State of Virginia where the rate was cut from $3\frac{1}{2}$ to $2\frac{1}{2}$ per cent the number of licensees promptly dropped from 99 to 69. In Alabama, Arkansas and the District of Columbia, where the rates were set at $\frac{2}{3}$ per cent, $\frac{5}{8}$ per cent and 1 per cent respectively, there have been no licensees whatever since 1930. The whole business is illegal. It is done, but it is illegal. It is done by other means.

Two states, however, give a picture closely parallel to our own. In the middle thirties Georgia and Tennessee adopted reductions in rates each from $3\frac{1}{2}$ per cent to $2\frac{1}{2}$ per cent.

In Georgia the number of licensees has dropped from 54 to 5, in Tennessee from 53 to 7.

Mr. Chairman is there any doubt as to what is going to happen here? I think the committee might consider it advisable to cut the rate anyway and let the chips fall where they will, but that is a serious step to take.

There is no reason whatever that you should look for anything but a similar result in Canada on the dropping of the rate from 2 per cent to $1\frac{1}{2}$ per cent.

Whatever may be the real aim the actual effect will be monopoly. Bill 140 will force virtually all of the small loan business into about three channels, three chains. That is not what this country is headed for, or is it? That is the question to be asked.

Not everyone wants to patronize a bank nor a large loan company. Many prefer a neighbourhood service where they know the manager, the president and the company.

Now, I want to take a moment to deal with long-term rates that are mentioned in your bill. The rate is reduced from 2 per cent to $1\frac{1}{2}$ per cent, but if the loan is contracted to run for a period of longer than fifteen months the rate is to be: for eighteen months $1\text{-}5/12$ per cent; for twenty months $1\text{-}3/8$ per cent, and for twenty-four months $1\text{-}5/16$ per cent.

Not one borrower in one hundred thousand will be able to check the charges on his account. How many lenders will be able to compute the loan charges on a two-year contract when the payment is \$11.72 a month and the borrower has allowed thirty-seven days to elapse between payments? How many members of this committee would care to make these computations as a daily task?

You understand, of course, that every time a payment is made on a contract the interest is computed to that day. Remove from the man all the payments and the balance credited to the principal, ten months, ten times, eighteen months,

eighteen times; with those odd figures that is quite a task. This is an exceedingly expensive procedure even with a simple rate. When fractions such as $\frac{5}{13}$ ths and $\frac{5}{16}$ ths are introduced and you use half a dozen different rates, it becomes a serious problem.

Should a contract for twenty-four months be at a higher rate than a contract for twelve months? It is true the cost of writing up the business and investigation is to be absorbed in twenty-four payments instead of twelve, and so is less per payment, but that is offset by the fact that the collection and recording cost is doubled. The one washes out the other.

There is another factor. The risk in a twenty-four month loan is just double that in the case of a twelve-month loan. If anyone wants any information on that I shall be glad to give it.

Our business is to frequently meet family emergencies and bring solutions to cases of personal distress. I think, Mr. Chairman, that the small loan business brings more happiness to Canadian homes than any other business we have. It solves more pressing problems and it does it in a kindly and sympathetic way. It gives help where the help is needed and it gives help that cannot be got anywhere else on earth, which is important. It is easy to be seen that it is sounder credit practice and certainly a concession to the borrower to spread the loan over two years instead of one. A man needs \$100. You say to him, "Pay it in eighteen months," and if you cut that to nine months you have made a difficulty for him. He could handle it in eighteen months easily but to do it in ten months might be difficult. One has to consider all these points. The monthly instalments necessary to pay off the one year loan may be so high as to be beyond the capacity of the borrower to pay, or so high as to make payment irksome or difficult. Such loans are to relieve distress, not to make new distresses. The type of credit that requires the longer term brings to the lender a greater risk. His balance unpaid declines more slowly, so the lenders exposure extends longer. The longer period, moreover, may involve changes outside the sphere of the borrower, tides that he can do nothing to sweep back.

Why do you ask the lender to take a lower rate on the longer term loans?

I would like you to ask yourself these questions.

Now, there is another feature of this matter that I should like to have the privilege of drawing to your attention. I think it is important, exceedingly important. It is not necessary that we in Canada should cut our cloth to the pattern of the United States, but it is well to remember that our neighbour has had a much longer experience with small loan legislation than we have had. Great chunks of their legislation was lifted bodily out of their Act and put in our Act. That is the genesis of it. So it is not unseemly that I should direct your attention to some features of this matter where we can get an illustration from our neighbours. The States since 1917, have one by one adopted small loan legislation until now only five states, Kansas, Montana, South Carolina and the two Dakotas, are without regulatory legislation. All the others have the small loans Act—all torn out of the Russell Sage Foundation that Leon Henderson represented, as I told you, for eight years.

Now, then, these five states are outside of the pale and we will forget about them. Will you look with me for a moment at the states that are inside the pale?

Two states with three and one-half per cent.

Five states with three and one-half per cent on smaller balances and a lower rate on greater balances.

Seven states with three per cent.

Eleven states with three per cent on smaller balances and lower rates on greater balances.

Two states with 2 and one-half per cent.

Four states with 2 and one-half per cent on smaller balances and a lower rate on greater balances.

One state with 2 per cent plus permissible fees.

Two states with 10 per cent per annum plus fees.

Our rate has no fees. It is a rate, that is all. There is a great deal to be said in favour of our situation here. Once you open the door for lenders to add fees and what not to the cost of the loan you are not sure where you will end up. It is a simple thing, the small loan charge of 2 per cent or $1\frac{1}{2}$ per cent or whatever it is.

Now, there is a list of over thirty states in the United States and they are all regulated under acts like yours but at rates higher than ours. One can hardly ignore evidence of that kind.

Earlier to-day in the agenda there was mention made of other loaning agencies, and Mr. Jackman thought we ought to confine ourselves pretty closely to the 2 per cent and the $1\frac{1}{2}$ per cent; but these other agencies and their works and their purposes and their achievements have a very direct relationship to what I am speaking about here. I am going to speak about the credit unions for a moment if I may. The credit unions never can take over what we are doing. If they are convinced that they are doing what we are doing there is no need of our going on and doing business, but we contend that they cannot do it. We make the same contention with regard to the banks, and I would like to deal with that matter also. I repeat, there is no person in Canada who can do for the Canadian public what we have been doing and are doing and will do if we are given an opportunity to carry on. With regard to the credit unions, you know their set-up; voluntary officers, no salaries, operating in a closely knit group within an industry. It is conceivable that there are very large areas in Canada that cannot be covered by an agency of that kind. I am not going to go into that further because you are going to have the unions here soon. The credit union does splendid work in its own field to carry out its own purposes, but it is not at all comparative to what we are doing. They are not going to pick up the mantles that might be thrown down by the small loan companies, if they are thrown down.

As I pointed out a moment ago, experiments with lower rates have been tried from time to time in the various states and have always resulted in the withdrawal of legal and supervised lending agencies and the return of the loan shark rackets which defy the law. Illegality steps in the moment that legal money-lending cannot be carried on at a profit.

By Mr. Irvine:

Q. When is a shark a shark? That is what I would like to know.—A. A shark is one who charges an unconscionable rate for a loan.

Q. That is what I think they are all doing.—A. The member thinks that is what we are all doing. I will give him a little evidence on that later.

Q. I would like to have it.—A. My candid opinion is that there may be as many money lenders and loan companies in heaven as there are the rest of the population, I do not know, but I may be able to count the heads some day. That is my opinion now.

In January, 1945, one large Canadian small loans company voluntarily reduced its charge to $1\frac{1}{2}$ per cent per month. Another company reduced its charges to $1\frac{3}{4}$ per cent per month and supplied borrowers with life insurance protection at no extra cost. That means that if the signer of the contract should die during the period of the contract the debt is discharged. That is the end of it.

These borrowers benefits were possible because of several factors of reduced operating expense, increasing volume per office, and less expense incurred by investigation and collection requirements.

The reduced rates are still in the experimental stage. The operating factors which made them possible during 1945 are already disappearing in 1946 and may be entirely gone by the latter part of 1947. As a matter of fact, the cost of our accounts per month have gone up since the beginning of 1944 from 35 cents per account per month to over 50 cents per account per month, and that is still going up if you project that line into the future. In the earnings of 1945, as you will see by the table when it is presented—it is well to remember that a lot of these earnings came from the 2 per cent rate which was in force in 1944 when the contracts were made. Through the kindness of Mr. Finlayson we have the figures of the companies for 1945. These came in too late to be analysed. There is one thing I should like to point out to Mr. Finlayson and to you Mr. Chairman, and that is that in his earnings for the Household Finance, galley 2, he has listed the earnings as \$2,026,923. He should state, I think, that of that amount \$253,890 got into the income column not from earnings at all but from a refund of taxes paid.

We honestly and sincerely believe that such action would seriously endanger the social and economic benefits for which the Act was designed and would lead not only to a speedy return of unsocial and illegal lending practices which were common and nation-wide prior to 1940, but would also breed resentment, suspicion and outright antagonism on the part of Canadian business generally toward any attempt on the part of government to regulate business practices under peacetime conditions when the natural laws of supply and demand and of free competition will provide more effective regulation than any statute.

It should be borne in mind that from early in 1941 until late in 1945 the following economic factors were increasing in intensity in Canada:—

- (a) Increasing industrial employment; (More workers employed)
- (b) Longer and steadier industrial employment;
- (c) Rising industrial wage ceilings;
- (d) Greatly increased "family" income in wage-earning groups;
- (e) Decreased spending due to wartime shortage of consumer goods and heavy pressure for wartime savings; and due to the fact that consumer goods were not available—washing machines and carpet sweepers and automobiles had all gone off the map.
- (f) Greatly restricted consumer credit in the fields of instalment sales and merchants' "open accounts".

The net result of these factors on the small loan companies was to reduce investigation and collection costs and bad debt losses since most families had adequate incomes and few debts.

Lenders' operating costs were reduced by the employment of women (often wives of service men) to replace male employees then in the armed forces.

In the months and years to come it is to be expected that

- (a) Industrial employment will be less regular;
- (b) Industrial wage scales will be stabilized at levels somewhat lower than those prevalent during the emergency period of war production;
- (c) Total family income of industrial wage-earning groups will decline rapidly;
- (d) Instalment sales and merchants' "open accounts" will increase.

All these factors will tend to increase lenders' operating costs for investigation and collection.

Items of operating expense which are now rising and will probably continue to rise are:—

(a) *Salaries.* Many employees have been under wage "freeze" for five years. Many who are entitled to increases in salary because of length of service,

increased efficiency and greater value to the employer will be expecting (and rightly so) consideration as soon as the "freeze" is lifted.

Higher salary levels in other industries necessitate a general rise in the salaries of new employees in order to compete in the labour market.

Male employees returning from the services expect, and are already receiving higher salaries than they received at the time of enlistment;

(b) *Rentals.* Office rents have risen as much as 60 per cent. Such increases are already effective and will be more widely applied when present restrictions are lifted.

Advertising rates are going up constantly. The increase in these operating expenses must of course come from profits; and the profits have been small even at the present legal rate of 2 per cent.

The report of the Dominion Superintendent of Insurance on the operations of lenders in 1944 (the latest report available), shows that the highest net profit earned was 5.54 per cent of employed assets. This was earned by the largest of the three dominion chartered companies. The others earned respectively 3.37 per cent and 2.7 per cent. Not colossal earnings, I would say.

Now let us look for a moment at the 50 licensed money lenders in 1944. Their net profit was 2.74 per cent of employed assets. And someone said that we were all sharks. There does not seem to be any evidence of sharks in the waters around here anyway.

By Mr. Lesage:

Q. What about your own company?—A. My company?

Q. Twelve per cent in 1944; net profit 12 per cent for 1944, is that true?—

A. The Niagara Finance Company?

Q. Your Company.—A. I could not say.

Q. You haven't it here?—A. I will come back to that if I may.

Two companies voluntarily charged less than the legal maximum rate in 1945. These lenders had over two-thirds of the total volume of loan balances in the industry. It should be emphasized that the present rate reductions to $1\frac{1}{2}$ and $1\frac{3}{4}$ per cent are experimental only and have been applied during a period of exceptional and artificial conditions. The important point is that such rate reductions were voluntary and the result of keen competition.

We maintain that a reduction in the legal maximum rate allowed by the Small Loans Act would be not only unfair to the lenders, particularly those employing less than \$1,000,000, but would greatly restrict an essential service to small-sum borrowers by inducing a speedy return of loan-shark operations, as well as promoting resentment amongst all types of Canadian business men against all government regulation of business.

We believe that the material contained in this brief, supported by the operating statistics of the lending companies and the Superintendent of Insurance, together with the recorded evidence—

Mr. FRASER: Mr. Chairman, Mr. Duff is reading so fast that the ceiling does not allow his words to come back this way.

The WITNESS: I am sorry. I have so much to say, Mr. Chairman, and I want to say it.

Mr. FRASER: I would rather have you say it slowly and let us get it.

The CHAIRMAN: You will have all the time that is necessary, Mr. Duff. Do not hurry yourself.

The WITNESS: I shall repeat that last paragraph.

We believe that the material contained in this brief, supported by the operating statistics of lending companies and the Superintendent of Insurance, together with the recorded evidence before the Banking and Commerce Committee of parliament in 1936, 1937, 1938, 1939 and 1940 is ample evidence that such contemplated action is both destructive and unpolitic.

I said earlier in my remarks here that the government of the day went out of its way to bring to Ottawa to give some expert advice its own witnesses who had been through this field. I suppose the government would be bound by what those men said, more or less. I am going to quote one or two statements. This is one by Mr. Henderson, and I gave you his description a moment ago. It will be found at page 78 of the minutes of proceedings of the committee of 1938:—

Some of the states that were adopting the law were changing their rates, and others were almost rendering their small loan law inoperative by a reduction to too low a rate.

Do you get that, gentlemen? They were making their law inoperative by making the rates too low. Continuing further on:

New Jersey, after a violent fight in the legislature, reduced it to $1\frac{1}{2}$ per cent.

That is the very rate that is proposed here. Continuing:

The lenders left the state and as a result pretty largely the business shifted into New York and Pennsylvania, particularly Pennsylvania.

Later the state raised its rate to $2\frac{1}{2}$ per cent where it had been before. It went down and went up. Continuing:

Wisconsin moved its rate down until I think the effective rate is about, as I recall from my Clark Dodge study, 2.27 per cent—it is something like that; but that gave a monopoly almost to one group.

And further on:—

Missouri reduced its rate to below what we thought was the minimum rate, $2\frac{1}{2}$ per cent, regardless of how it were fixed; and Missouri has had a resumption of loan-shark conditions to such an extent that the attorney general and the Better Business Bureau are moving now towards the restoration of a higher rate. The West Virginia experience was what you might call a theorist's dream.

Mr. Henderson again, on page 90:

The lowest operating rate, and I mean by that where there is licensed lending, is about $2\frac{1}{2}$ per cent, except for Wisconsin. Wisconsin has a rate of $2\frac{1}{2}$ per cent on the first \$100, 2 per cent on the second \$100 and 1 per cent on the remainder. Ninety per cent of the business is done by one company, and the average rate is 2.28 and 2.30. It is a little bit above $2\frac{1}{4}$ per cent. But pretty generally you can say that any rate below $2\frac{1}{2}$ per cent, under uniform law, gives only a very, very highly specialized loan service.

Mr. Plaxton wanted to know whether, if they put the rate down here, we would have the same experience as Wisconsin. Mr. Henderson says at page 95:

I do not believe that a rate ought to be so low that it monopolizes the business, nor do I think that it should be so low that you cannot get local lenders in smaller communities.

I would have that underlined. Continuing he said:

We felt that Canada probably ought to do better than we would do in the States; and we felt that probably $2\frac{1}{2}$ per cent with none of the recommendations we usually make of 3 per cent on the first hundred—we thought that $2\frac{1}{2}$ per cent flat rate ought to be fairly adequate for your needs.

There is one other quotation that I should like to give you. Mr. Bunce was asked a question by Mr. Martin, and this is another of the authorities who was brought in from the United States. Mr. Martin's question at page 199 was as follows:—

Q. Would you care to say what, in the light of your experience, should be the minimum rate in Canada?—A. That depends on whether you are going to make it a flat rate or a sliding scale.

Q. Say a flat rate.—A. That would depend again on whether you are going to make the maximum \$300 or \$500.

Q. Say \$500.—A. I believe $2\frac{1}{2}$ per cent.

That is the answer that Mr. Bunce gave to the committee then. That is to be found at page 199 of the proceedings of the committee of 1938.

By Mr. Isnor:

Q. All those quotations are from the 1938 report, are they?—A. Yes. There is a good deal more in that 1938 report that might be illuminating to the members of this committee, Mr. Chairman. It really appertains to what is going on at this table now. I should like here to lay emphasis on what I referred to a while ago, that the representatives of the small loans companies attended these hearings in 1938 and they gave their earnest support to it. I want to warn as to this. Opinions were expressed then and are expressed now, and are deeply felt now, that the Small Loans Act as it stands is unconstitutional. For myself, I gave it the warmest welcome because it brought order out of chaos; but that does not mean that it fulfils all the requirements of the law. The right to legislate as to interest is your right. The right to legislate as to contract and business ancillary to it does not belong to you. I do not hold out any threat. I do not want anything of right, members of the committee, but this Act; because it is for the good of all. But if it comes to the place where men cannot operate and live under the proposed changes of the Act, there is nothing to do but to attack it; and that may be done.

This group of small loans companies presented the argument that "service charges" in the main consist of:—

- (a) the cost of securing the business and putting it on the books, and
- (b) the cost of administering the loan while it is current, and
- (c) the cost of final collection of the loan and the discharge of the security.

The law officers of the Crown asserted before the committee that parliament under the ancillary power to legislate in respect of "interest" under section 91 of the British North America Act had authority to say that all such charges are interest. There is the crux of the matter, that these things which are not interest can be declared by parliament to be interest; in other words, that the goat can be declared to be a cow and black can be declared to be white. It was urged, however, that the borrower had the right to contract with the lender that service charges constitute a collateral advantage to the lender and should not be interest and that such a contract falling within provincial jurisdiction, would override any federal legislation in that respect.

When the Small Loans Act was finally brought down in the House and enacted into law, it was found that parliament had not only legislated that all service charges shall be deemed to be part of the cost of the loan (interest) but section 6 of the Act regulated the business of money lending, not as an incident of interest whatever. These regulations take this form, and I want you to mark them, if you will. These regulations under the cloak of interest take this form:—

- (a) the time and periods in which a loan shall be repaid;

- (b) that the borrower may repay the loan at any time notwithstanding any contract to the contrary.

That is in all the contracts. It is right that it should be there, but still it is not interest.

- (c) that overdue interest shall not be compounded.

And the Act went on to give the Superintendent of Insurance extraordinary powers to regulate—and here is what he could do—who may lend money under this Act. It gave him certain regulatory powers with regard to advertising under the Act. It gave him power to regulate the forms that the lender may use in the transaction of his business. You see, we are going very far, tremendously far—fathoms or miles beyond the original authority under the British North America Act. It is apparent that the above matters are not incidental to “interest” and are entirely matters of regulation of business. The regulation of contract and the conduct of business come within the legislative jurisdiction of the provinces.

Since the enactment of the Small Loans Act, (1939), this group of small loans companies have co-operated and have carried out the letter and the spirit of the Act. It has been a splendid success not only from the standpoint of the department here at Ottawa but I think I can safely say from the standpoint of the companies operating and certainly from the standpoint of the borrowers themselves, which is the most important of the three. This does not mean, however, that any of the companies have agreed to the constitutionality of the Small Loans Act (1939). On the contrary, these companies maintain and always have maintained that the whole statute conflicts with provincial jurisdiction and is void. It is interesting to note that only the sections relating to the rate of interest (called “cost of loan”) have been carried forward into the Criminal Code and that none of the sections having to do with the regulation of the business, as above mentioned, appear in the Code. It is just the interest clause that has been carried forward.

It is now submitted that, should parliament deem it advisable now to reduce the rate provided in the Small Loans Act, moneylenders having smaller volume will not be able to carry on their business profitably and can well be expected to call in question the constitutionality of the whole legislation.

It is possible that proceedings and time could be saved if the committee would appoint a subcommittee of its lawyer members to investigate these questions that I have raised here and report to the Banking and Commerce Committee itself as to their opinion of the legality or illegality of the Act.

I am nearing an end, Mr. Chairman and members of the committee, and I certainly thank you for your patience. However, there is a point or two yet that I should like to be privileged to bring to your attention.

Our association respectfully suggests that in certain respects the Act and the rulings of the superintendent should be amended and altered so as to enable the licensees to effect economies in the operation of their business and also to make the Act and the rulings more satisfactory and workable. I should like to have Mr. Finlayson spend a few days in some of the loaning companies' offices so he would know at first hand just what happens there and how it happens. I should like him to see the customers as they come in. I should like him to hear what the customers have to say as to their cases. I should like him to know what the managers do with these people when they come in. I should like him especially to make careful note and have a full understanding of the routine that has to be gone through and the expense that has to be undergone to get an account on the books, to take care of the payments as they come in and the countless incidentals that appertain to an account from the time it begins until the time it is closed again. I think maybe he might take a more charitable view of the very large expense and trouble that is involved even in the slightest account.

At the present time lenders with branches are required to keep duplicate accounts and records so as to enable inspection to be made by the superintendent at the head office of such lenders. Such duplicate bookkeeping is expensive and unnecessary, as inspection could easily be made at each branch. This would enable some lenders to economize in the cost of doing business. Section 7, line 1 of the Act should be amended in this respect.

Section 6, line 1 of the Act requires loans to be repaid in equal monthly instalments. That is very well intended, but I want to say to the committee that there are certain loans that should not be required to be made on those terms. Take the dairy farmer. He gets a cheque twice a month and he is in the same position for paying monthly instalments as is the man who works at the foundry, or any other salaried man. Take the dirt farmer, or the grain farmer. He has next to no revenue except at certain periods of the year. If you want to do something to help persons in that category and others I could name, maybe it might be well for you to consider, while you are making changes, whether some change might be made in the Small Loans Act to fit the cases of those persons who have not a regular monthly income.

There is another point where I think you might make a change in this Act and it is in regard to section 5, line 4, which provides that all licences expire as of the 31st of March each year. We think that is quite unnecessary. We think that a licence to lend money should be like a marriage licence; good until death do us part. When we get a licence, we think we ought to have it pending good conduct; let the licence run on. If the department wants to cancel it for any reason, let them cancel it; but until it is cancelled, it should be effective.

Section 9 of the Act provides that the superintendent may make investigations and it is submitted that the Act might well be amended so as to provide that, upon the submission to the superintendent in due form of evidence relating to the belief that violations of the Small Loans Act have occurred that the superintendent is required to promptly investigate the complaint in question and, if the charge is substantiated, to take the appropriate steps in regard thereto.

The superintendent has ruled from time to time that a lender may not vary rate of loans in different localities. It has got to be the same everywhere. I do not know whether or not that meets your view of the fitness of things. There might be centres in which it would be advisable in the public interest that the rate be lower, and other centres where it might be higher; all, of course, under the prescribed ceiling of the Act itself.

One more thing. Section 32 empowers the directors to make by-laws for creating preferred stock subject to ratification at a general meeting of shareholders representing two-thirds of the issued stock of the company or unani- mously sanctioned in writing by the shareholders. Subsection 3, however, requires that such a by-law shall not be valid or acted upon until after sanction by not less than three-fourths in value of the shareholders and the governor in council approves thereof. Having in mind that only the shareholders' equities are affected and no fiduciary interest is involved, it is felt that this proviso for approval by the governor in council should be lifted. I should like you to make a note of that, Mr. Chairman, if you would, and give it the atten- tion it deserves.

By the Chairman:

Q. You refer, I take it, to the regular Loan Companies Act, Mr. Duff?—
A. Yes.

Mr. IRVINE: Mr. Chairman, are we not more particularly interested in the rate of charge here than in the general Act? I mean, the witness seems to be going a long distance dealing with all the features of the Act. I do not object to that, but I was just wondering whether that was our objective.

The CHAIRMAN: I believe that we are primarily interested in making small loans available to needy people at the lowest possible rate at which they can be made legally available from legitimate sources.

Mr. IRVINE: Yes. I think that is the main point.

The CHAIRMAN: That is our problem. But I think, in arriving at a proper judgment with respect to that problem, we must cover the whole field reasonably well.

An Hon. MEMBER: Hear, hear.

Mr. IRVINE: All right.

The WITNESS: Mr. Chairman and members of the committee, what I have been saying, as has been pointed out, is not on the main track of the purpose of this bill. But our association considered that, now that you are taking up this bill proposing a very radical change in it, you might be willing at the same time to give consideration to other matters that relate to the bill itself. That is the point. Maybe I am out of order in that, but anyway we offer it in good faith for what it is worth.

Now I am going to summarize what I have said as best I can. Operating costs are rising—salaries, rentals, and everything else. They are going to continue to rise for some time, if one can see into the future at all.

By Mr. Fraser:

Q. Would you mind saying again what the office rents have jumped to, the percentage? You said that office rent had jumped.—A. 60 per cent.

Q. Thank you.—A. Lenders have voluntarily completed in rate reduction below the "ceiling" as conditions warranted such reduction.

Mr. BLACKMORE: Mr. Chairman, I wonder if the witness would speak a little more slowly. The speed at which he is talking gives me a headache. He is going too fast.

The WITNESS: I am sorry.

Mr. BLACKMORE: I am trying to get every word.

The WITNESS: I am very sorry. What I am afraid of is that I am going to go back home with a lot of this stuff still in my system instead of having gotten it out.

Mr. BLACKMORE: Mr. Chairman, I should like to have the witness given the assurance that he may have all the time he wants; but I want to know what he has said when he gets done.

The WITNESS: All right. Thank you very much. Lenders have voluntarily cut the rate where they could wherever conditions warranted such reduction. Anticipated increases in instalment selling and in merchants "open accounts" will necessitate increased investigation and collection expense by cash lenders. There have been no complaints from borrowers that existing rates are unfair or inequitable for service given. I have never heard one. Social agencies have expressed satisfaction with the effects of the present Act. I have mentioned two of the Better Business Bureaux. I could give you some further evidence in that regard if you wished it. They seem to be immensely pleased. I am speaking about people who have no interest but the interest of the borrower at heart. They have nothing to do with us whatever, or with the government.

Present profits are so low that any increase in operating costs would, if the ceiling is lowered, force licensed lenders to refuse to make loans in the lower brackets; that is of \$100 or less. That represents, I think, some 40,000-odd borrowers last year.

By Mr. Fraser:

Q. What percentage of borrowers would that be?—A. I could not tell you offhand; 40,000-odd. I will get that in a moment. The other result would be that the lenders would select only the best risks. Another result would be that they would operate only in cities where a large volume of business is available; and another result would be withdrawal from the business entirely that I spoke of a while ago. I say positively that the adoption of this bill will close half of the operators in the Dominion of Canada forthwith, and that a year will see you with eight companies in Canada, but more probably four and maybe three. You have streamlined the whole thing into two or three doors across Canada if you adopt this.

I have pointed out what may be the results here, and there is one more result I should like to bring to your attention. If you close these doors, if you freeze up this business, you are inviting a return of the loan shark and the salary buyers who were excluded 8 years ago. This experience has been repeated again and again and again in the United States. It will be repeated in Canada if you carry out the purpose of this bill.

I now want to give you my best thanks for a very cordial hearing. I have presented this thing as best I can. I have covered a good many features of it. I am going to give you some figures here from the report of a chartered accountant who has examined all of the reports for 1940. He has taken his figures from the report of Mr. Finlayson here, your superintendent.

By Mr. Stewart:

Q. Can you give us the name of the chartered accountant?—A. Yes, I can. It is Cameron K. MacGillivray. He has a double-barrelled Scotch name.

Mr. IRVINE: He cannot help that, poor fellow.

The WITNESS: No, he cannot live that down. Applying the new figures to 1944 business, he says 12 out of the 50 money-lenders lost money on their business in 1944 at the old rate. Twelve lost money. He says:

“To make the drastic reduction in revenue contemplated by the proposed legislation—

Mr. BLACKMORE: The witness is speaking too fast again.

The WITNESS: I am sorry. I shall repeat:

“To make the drastic reduction in their revenue contemplated by the proposed legislation would probably force the said 12 members out of business in a very short time.” The next paragraph goes on—that was with regard to 12—with regard to another, 13:

“In addition, a further 13 of the 50 money-lenders made profits for the year 1944 of less than \$1,000 on small loan business. Practically all of them would show losses under the proposed new rates. It is obvious that many of these members might find the legislation so detrimental that they would be forced to cease operations also.

Thus it can be seen that at least 25 of the 50 licensed moneylenders would be operating at a loss under the provisions of Bill 140, and many others would be carrying on business at such a negligible profit that they would not find it worth while to keep their doors open.

Our studies reveal that the three small loans companies and the one principal moneylender—you get the distinction there; the three who are incorporated under special Acts and the principal of all the moneylenders—account for 74 per cent of all business conducted by licensees under the Act. It would appear that while these four companies might be able temporarily to endure the proposed reduction, the majority of the other licensees would be disastrously affected.”

Thank you very much, members of the committee. Mr. Chairman, might I ask that you hear Mr. Ross Harris?

The CHAIRMAN: I am in the hands of the committee. Before you leave, Mr. Duff, the question has been raised by one of our committee members as to the profits of your company.

Mr. LESAGE: I want to correct my statement. I had made a calculation and I was wrong in stating that the net profit of the witness's own company was 12 per cent on the subscribed capital in 1944. I have made a calculation and it was 8 per cent in 1944. I arrived at 8 per cent in 1944 and 9 per cent in 1945.

The CHAIRMAN: Yes. I take it that, inasmuch as the statement has been made and the correction made, Mr. Duff should have an opportunity of studying that.

Mr. LESAGE: Yes.

The CHAIRMAN: And making a further statement in regard to it if he wishes to do so. I checked with the Superintendent of Insurance while you were speaking, Mr. Duff, and I believe these figures to be correct: the total paid up capital of your company is \$62,500.

The WITNESS: That is correct.

The CHAIRMAN: Then with regard to the gross earnings on 1945 business in the small loans field—apparently you carry on two types of business in your company?

The WITNESS: Yes.

The CHAIRMAN: In the small loans field the gross earnings were \$14,693. In that same field the cost of doing business was \$14,231, which left a net profit of \$462 on apparently what would be an employed capital of roughly \$15,000; \$15,000 with respect to the small loan business.

The WITNESS: Yes, I see.

The CHAIRMAN: Which works out really to about 3 per cent on the amount you mentioned. Then if you want the whole business of the company, I will now put the figures on the record. The small loan business and other business combined totalled earnings of \$51,599; the cost of operating business as to both branches was \$45,665 or a net profit on the entire operations of the company—both the small loan department as well as the other department for the entire year of \$5,934.

Mr. STEWART: In that same statement there is \$7,098 written off for small loans and \$6,000 written off for business other than in small loans.

The CHAIRMAN: What is the page, please?

Mr. STEWART: Page 9.

The CHAIRMAN: A point has been raised in regard to the write-offs, and quite properly. It is difficult to hurriedly pick up the complete picture, but you will find on page 8 with respect to the write-offs that the recoveries were \$43 as to the small loans write-offs and \$80 with respect to the other write-offs.

Mr. STEWART: The write-offs were very large.

The CHAIRMAN: Indicating that the business is a somewhat hazardous item.

Mr. BLACKMORE: I wonder if I could ask the witness if he could give us an idea of the availability of this service with respect to the size of the communities. To how many communities in Canada of 15,000 population or fewer were these loans available? Is the witness in a position to tell us that? He said among other things that the tendency would be, if we passed this Act to cause the loan companies to retreat into the larger centres where there are many people which, of course, would take the services away from the people in the smaller communities.

The WITNESS: True.

Mr. BLACKMORE: If all the companies followed the same policy that would deprive a large percentage of Canadian people of this facility?

The WITNESS: Yes.

Mr. BLACKMORE: I wonder if the witness is prepared to give us any figures indicating how far that has gone now; to what extent are these facilities available to people who live in small communities with 15,000 population or fewer.

The WITNESS: I could not give you an answer to that question. In our province in the last two years a number of offices have been opened in places like Woodstock, Chatham and St. Thomas, for instance, but I could not give you any definite figure across the country. I take it the places of 15,000 population would be pretty well covered by a loan service today. While I am on my feet, I want to thank the gentleman on my left for cutting down my earnings from 12 to 8 per cent and you, Mr. Chairman, for cutting me down from 8 to 3 per cent, and I hope nobody else will take a slap at me because I cannot afford to operate for less than that.

Mr. BRADETTE: Am I in order if I question the witness?

The CHAIRMAN: I think while the witness is here and the evidence is fresh in our minds that we should have the widest questioning.

Mr. IRVINE: Will the witness be available for another meeting of this committee?

The CHAIRMAN: We still have some time; let us carry on until 6 o'clock.

Mr. IRVINE: Six o'clock is going to come quickly.

Mrs. STRUM: Are we free to discuss the points which have been brought up by the witness?

The CHAIRMAN: I think that general discussion on the points could not take place for some little time, but I do think that while the witness is here he should be questioned as to any point about which we are in doubt with respect to the testimony as given us. Now, what is the wish of the committee; shall I start at one side of the committee and go around, or shall we leave the matter open?

Mr. Low: Leave it open.

By Mr. Bradette:

Q. I wish the witness would enlarge on his statement with regard to the risk as between the twelve months' loan and the twenty-four months' loan.—A. Mr. Cleaver, the gentleman who has asked that question would probably win a bet on me that nothing would happen for a year. I would not want to bet that nothing would happen for thirty years; the chances of casualties are so great in that time, and you would be surprised how many people run on O.K. for a year. In two years you run into something. Now, the initial cost is the same in both cases, twelve months or twenty-four months, but there is double the amount of bookkeeping, double the interest and the risk is more than doubled in twenty-four months over twelve.

The CHAIRMAN: In regard to the write-offs which were made in 1945 in your company, have you any figures as to the percentage of those write-offs with respect to short term loans and with respect to long term loans? In other words, have you figures to prove that the long term small loan business is more hazardous?

The WITNESS: No. I have no figures. I have no twenty-four month loan.

By Mr. Bradette:

Q. I am not going to go into the issue the witness has raised. He stated there were areas where the rates should be lower and areas where the rates should be high. It is a broad statement to make. What is your yardstick in making this statement—is it your experience?—A. The yardstick is this: in Dawson City maybe you would have to pay a man three times as much to run an office as you would in Halifax. That is the point.

Q. Are the reasons local or geographical?—A. Geographical, that is quite so.

Q. I do not grasp that thoroughly, because generally speaking—

Mr. MICHAUD: Has the size of the place something to do with it?

The WITNESS: I do not think so. I think it is location. I think it is an important point.

Mr. BRADETTE: I make that statement because our banks had regional rates in northern Ontario up to a few months ago. We paid a higher rate than any other section in central Canada. You believe that that principle might be applied to loan companies too, do you?

The WITNESS: Yes.

The CHAIRMAN: Mr. Fraser or Mrs. Strum?

Mr. FRASER: I always bow to the ladies.

Mrs. STRUM: I do not like the idea of introducing any idea of distinction between ladies and gentlemen; I do not think you should insult the ladies because they are ladies or gentlemen because they are gentlemen.

By Mr. Fraser:

Q. What rate does your company pay the bank for a loan to carry on business?—A. $4\frac{1}{2}$ per cent.

Q. $4\frac{1}{2}$ per cent per annum?—A. Yes.

By Mrs. Strum:

Q. Was the witness making a case for the small loan companies for Ontario or for all of Canada?—A. All of Canada.

Q. Have you any breakdown of the occupations of the various people who take out loans? You mention the dirt farmer and the dairy farmer. I happen to be a farmer. You said it was difficult for the farmers to pay every month. My experience has been that farmers ordinarily do not get loans from the small loan corporations and that the companies do not operate in the towns and villages, and in the province from which I come we have very few towns of 5,000, most of them being under 5,000, and these companies are not available to us anyway. If we buy from a firm like the T. Eaton Company or buy a car, credit is extended through the finance corporation; not the small loans organization.—A. Our business has many farmers in Ontario; all through our county and in the adjoining county.

Q. Have you any breakdown of that?—A. As to the number of farmers? No.

Q. The occupations of the borrower?—A. No, I have not.

By Mr. Isnor:

Q. May I follow up that question asked by Mr. Fraser in regard to interest rates charged your company by the banks? I suppose you are a large investor in Dominion of Canada bonds?—A. Not large.

Q. Fairly large?—A. Not very large, no.

Q. If you put up Dominion of Canada bonds as collateral the banks would not charge you anything like $4\frac{1}{2}$ per cent, would they?—A. No, that is true.

Q. $3\frac{1}{2}$ per cent?—A. Yes.

Q. Then it is safe to say that you have put up some bonds?—A. Oh, a little.

Mr. JACKMAN: Oh, oh, that is not a fair question.

Mr. ISNOR: I am asking the questions.

By Mr. Isnor:

Q. You represent forty loan companies?—A. Yes.

Q. Where are they located? In central Canada, largely?—A. From Halifax to Vancouver.

Q. The other eleven companies are not represented by you. Are you representing the largest company that you refer to?—A. Oh, yes, and 95 per cent of the business.

Q. You appeared before the committee in 1938, did you not? Could you tell us how many small loan companies there were in 1938?—A. We started out, sir, with rather more licensees at the beginning than now. Mr. Finlayson can answer that.

Q. I thought I would get that information from him later on. Would you enlarge on your thought as to why—taking into consideration the reasons you gave: increased salaries, greater spending power, and the desire of the average wage earner to buy such articles as washing machines and other home equipment—why your business would be less instead of greater in the future?—A. If he is stuck for a carpet sweeper or a washing machine or an automobile he is not a very good customer for us. That is my answer to that question.

Mr. IRVINE: I did not get the answer.

The WITNESS: If a man has shot his credit in buying durable goods, he is not good credit for the loan company. That is what I meant.

By Mr. Isnor:

Q. I was under the impression that a great many of the loan companies work along that particular line—to supply household needs.—A. Might I answer that question, sir?

Q. Yes, provided I can follow on.

The CHAIRMAN: Oh, yes, you have the floor.

The WITNESS: We are not allowed by the Wartime Prices Board to advance money for the purchase of durable goods unless the customer has already put up one-third of the price. Then we can put up the other two-thirds in the way of a loan.

By Mr. Isnor:

Q. You were operating, of course, four years prior to that regulation going into effect?—A. Yes, that is true.

Q. Would what I said apply to the first four years, from 1938 to 1942, in regard to the borrower?—A. Yes, I suppose.

Q. That is all.

Mr. STEWART: From reading the minutes of the 1938-39 committee some doubt was expressed as to the ability of small loan companies to continue if the rate were reduced to 2 per cent and kept there, and yet I notice in the galley proofs which have been given to us by Mr. Finlayson that the total income of the small loan companies for the small loans increased between 1940 and 1945 from \$509,444 to \$1,428,397. That is the total income. The net income increased from \$7,332 to \$181,896. Now, would the witness care to comment upon that rather substantial increase in total income and in net profits in view of the decrease in the rate?

The CHAIRMAN: The volume of business was mentioned. You, perhaps, were not at the committee meeting yesterday but Mr. Finlayson gave the committee the increase in the volume of business that it being done by these companies.

Mr. STEWART: I know that, but might it not follow that if the rate was reduced the volume might increase?

Mr. JACKMAN: Of course, the national income expanded in about the same ratio as the loans. It is something nobody could foresee.

The CHAIRMAN: Mr. Stewart, will you repeat your question?

By Mr. Stewart:

Q. I asked the witness if he could give us some information as to why there was this tremendous increase in total income in small loans between 1940 and 1945 and in net profits. As a matter of fact the chairman answered the question on behalf of the witness.—A. There was a wide expansion in the number of offices operated in dispensing small loans in that period. A great many towns had offices operating small loan businesses by that time, which was one of the tendencies, and that increased the volume of business. There is another tendency. I do not know whether the members of the committee know, but the best time for small loan companies is not times of depression but times of prosperity, when men are active, when they want to put a new verandah on a house and want to do a thousand things that they would not do in bad times. The period our friend mentioned was the period of our greatest monetary expansion and we naturally increased our business and it will contract again when the expansion begins to run out. That is my explanation.

Mr. MICHAUD: Mr. Chairman, I should like to ask a couple of questions. In the course of his presentation the witness stated that the term "interest" was improperly used to the extent that it was not all true or real interest, that part of it repaid other charges which I might call carrying charges. Would the witness be in a position to give us what proportion of this rate is charged or should be charged to interest and what proportion should be charged to the other items?

The WITNESS: 2.74 per cent is the profit that we made under those transactions in 1945, and that is covering interest. I haven't broken it down in the way you suggest, but you can get a glimmering of where they stand from the figure I gave you.

By Mr. Michaud:

Q. 2.74 would represent real interest?—A. No, the profit to the company itself.

Mr. JACKMAN: On your capital?

The WITNESS: On employed assets.

Mr. Low: What would employed assets include?

The WITNESS: Surplus capital.

Mr. BRADETTE: Would you make the charge 50-50 between the two?

The WITNESS: Oh, no.

Mr. BRADETTE: As a guess, as an estimate?

The WITNESS: Oh, no. I would say the interest—oh, I could not say.

By Mr. Michaud:

Q. Perhaps the next question will clear this up. The witness remarked a moment ago that he was grateful to Mr. Lesage for reducing the rate of return to his company from 12 to 8 per cent and he had thanks for the chairman for further reducing it from 8 per cent to 3 per cent. While I was able to follow his statement, I was unable to follow the calculation in the statement. I would like him to further tell us approximately what is the net return of his company?—A. I have not figured it up since last December. I thought what the chairman was doing was about right.

Q. What was it?—A. 3 per cent.

Mr. LESAGE: It is a guess.

The WITNESS: No, it is not a guess.

Mr. IRVINE: I bet a nickel it is not 3 per cent.

The CHAIRMAN: For the benefit of the committee may I say that I checked these figures with Mr. Finlayson before putting them on the record. The net profit on the over-all business of the Niagara Finance Company for the year 1945 was \$5,934, which I make to be 9.4 per cent.

Mr. MICHAUD: That is what I find too.

The CHAIRMAN: Then apparently this company does a substantial amount of other business. Roughly less than one-third of its capital is involved in the small loans business, the other two-thirds being involved in what is indicated in the return as "other types of business". Making a calculation on that basis, the income from the small loan business in this company over that period was the figure which I put on the record, the difference between \$14,693 and \$14,231, or \$462. I thought it was fair to assume that, giving proper weight to the volume of business, \$15,000 of the company's capital was employed in the small loans business, and that would mean a yield of 3 per cent profit. I believe you will find those figures are correct.

Mr. MICHAUD: On small loans.

The WITNESS: Yes.

Mr. LESAGE: Following what you just said, Mr. Chairman, I find that the reason for the 3 per cent in 1945 was the very large amount of write-offs of small loans in 1945, because I have made the same calculations that you made for small loans, basing my calculation on \$15,000 capital for 1944 and I arrived at the net profit on the small loans in 1944 as \$1,328.

The WITNESS: Yes.

Mr. LESAGE: That makes a net profit on small loans of a little more than 8 per cent in 1944.

The WITNESS: Yes.

Mr. LESAGE: But here is the question I want to put. When, in general, do the small loans companies decide to make this write-off?

The WITNESS: The charge?

Mr. LESAGE: This write-off? At what moment do you write off the account?

The WITNESS: Sometimes we write it off right then, if there is something final and ultimate about it. Usually it is made at the end of December, when we are closing the year and want to clear our books for our annual statement.

By Mr. Irvine:

Q. Do you mean you write it off when you made it?—A. No.

By Mr. Michaud:

Q. When it matures, when it is dishonoured; is that correct?—A. Yes.

Mr. LESAGE: Following the same idea, we can understand—

Mr. BLACKMORE: Would the hon. member speak louder, please.

By Mr. Lesage:

Q. We can understand that a lot of your write-offs in 1945 were already outstanding in 1944?—A. Yes.

Q. You could have written off a large part of that \$7,000 you wrote off in 1945?—A. Not a large part; a part.

Q. A part of it in 1944?—A. Yes.

Q. So next year you will have less because you wrote off this year a very large amount?—A. That is true.

The CHAIRMAN: Your suggestion is, and it seems to be borne out by the figures, that the losses may have been consolidated and written off in a profitable year. Is that what you mean, Mr. Lesage?

Mr. LESAGE: That is what I mean, yes.

The CHAIRMAN: And that recovery could take place later on. We checked the recoveries of the previous year, and I should like to put the figures on the record. I would ask Mr. Duff if he cannot give us the information now, if he would be good enough to send it in by mail. On checking the 1944 year, Mr. Duff, I find that the write-offs with respect to the small loans business were \$686. Then coming to 1945, the write-offs with respect to the small loans part of the business were \$7,098.

Mr. LESAGE: That is right.

The CHAIRMAN: And I think, in order to properly appraise the value of this statement we should have a rather full explanation of that wide variance that occurred in the 1944 write-off as compared with the 1945 write-off.

Mr. LESAGE: For all companies there was a rise in the amount of write-off, but it was only from \$61,000 to \$84,000, a ratio of 6 to 8 where yours is 6 to 7.

By Mrs. Strum:

Q. There is some confusion in my mind over a statement that the witness has made. Did I understand him to say that on page 8 of this, whatever it is,—A. A galley proof.

Q. —where the accounting of the earnings of the small loans companies is set out here in totals for the years from 1940 to 1945 it goes from \$508,000 to \$1,405,000. That is almost triple. Do I understand you to say the reason for that was the increased business?—A. Yes.

Q. How do you explain this statement, that if the interest rate was cut 25 per cent—that is reduced from 2 per cent to 1½ per cent,—it would mean that you would have to increase your volume of business one-third in order to compensate for that loss of rate, but that you would not really make anything on that third because the increased cost would absorb the increased expansion? Would you please explain those two statements?—A. Yes, I can. At the rate of 2 per cent per month, say, the return to all of the companies, was \$200,000 for a year. If you cut the rate to 1½ per cent, naturally the return to these companies, the total return, would be \$150,000 for the year. That is going to be three-quarters of the amount of earnings that came in. Now, how much would you have to increase your business to get back that other \$50,000 that you have lost in income because of the cut in the rate? Does that answer your question?

Q. No, it does not.

The CHAIRMAN: I take it the witness wants to know why you use the figure 25 per cent in the one instance and 33½ per cent in the other. I see the answer.

Mrs. STRUM: I am using the figures the witness gave.

Mr. MICHAUD: That is easy.

By Mrs. Strum:

Q. The cut in rate was 25 per cent?—A. That is right.

Q. And if you increased the volume by one-third— —A. That is correct.

Mr. MICHAUD: I can explain it.

The CHAIRMAN: You tell her, Mr. Michaud.

Mr. MICHAUD: Yes; I am going to use small figures. Say there is \$3,000 of business at 2 per cent. That would yield \$60 in interest. If you increase that \$3,000 by a third and bring it up to \$4,000, at 1½ per cent it would again yield \$60. That is the volume of business at the new rate of interest.

The WITNESS: Yes.

By Mr. Michaud:

Q. I have just one question in regard to write-offs. Do their write-offs have to be approved by the Department of Insurance?—A. No. That is the only thing that we do not require their approval of.

Mr. LESAGE: That is the only thing you can play with.

The WITNESS: Yes.

By Mr. Michaud:

Q. With regard to write-offs, is that final, or are you still continuing to try to collect them?—A. We are collecting them.

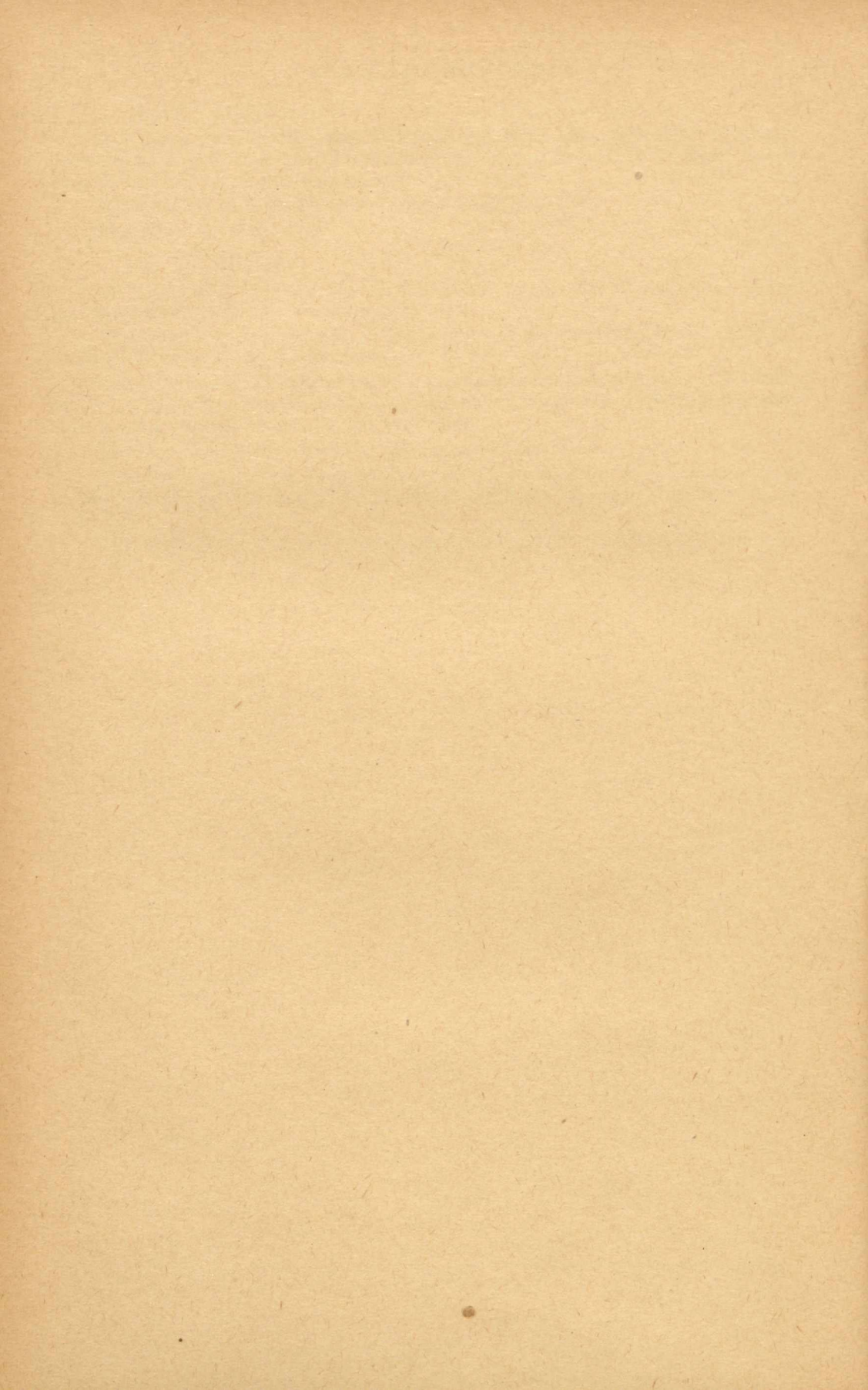
The WITNESS: Mr. Cleaver, I have copies of my brief and I will ask your clerk to distribute them to the members.

The CHAIRMAN: The secretary of the committee will be pleased to distribute them. I may say it is possible the committee may want you to return for further questioning. I hope that will be convenient.

The WITNESS: I am always at the service of the King.

The CHAIRMAN: The next meeting of the committee will deal with the Foreign Exchange Control Bill and will be held on Tuesday of next week at 4 o'clock.

The committee adjourned to meet again on Tuesday, July 9, at 4 o'clock p.m.



SESSION 1946
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

BILL 140, AN ACT TO AMEND THE SMALL
LOANS ACT, 1939

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, JULY 30, 1946
THURSDAY, AUGUST 1, 1946

WITNESSES

Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of
Finance.

Mr. Arthur P. Reid, Vice-President and General Manager, Household
Finance Corporation of Canada, Toronto.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1946

ORDER OF REFERENCE

TUESDAY, 9th July, 1946.

ORDERED,—That the name of Mr. Gauthier (Nipissing) be substituted for that of Mr. McIlraith on the said Committee.

R. T. GRAHAM,
Deputy Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, May 14, 1946.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from 15 to 10 and that Standing Order 63 (*d*) be suspended in relation thereto.
2. That it be empowered to sit while the House is sitting.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, July 30, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Breithaupt, Cleaver, Dionne (*Beauce*), Fulton, Gour, Hackett, Irvine, Jackman, Macdonnell (*Muskoka-Ontario*), Marier, Marquis, Mayhew, Michaud, Sinclair (*Ontario*) and Strum (Mrs.).

In attendance: Mr. R. H. Mayhew, Parliamentary Assistant to the Minister of Finance; Mr. G. D. Finlayson, C. M. G., Superintendent of Insurance, Department of Finance, and some representatives of Small Loan Companies.

The Committee resumed consideration of Bill 140, An Act to amend the Small Loans Act, 1939.

Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of Finance, was called and read a prepared statement.

The Committee adjourned at 5.30 p.m., to meet again at 4.00 p.m., on Thursday, August 1st next.

THURSDAY, August 1, 1946.

The Standing Committee on Banking and Commerce met at 4.00 p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Breithaupt, Cleaver, Dionne (*Beauce*), Fraser, Fulton, Gour, Hackett, Irvine, Jackman, Macdonnell (*Muskoka-Ontario*), Marier, Marquis, Mayhew, Michaud, Sinclair (*Ontario*), Strum (Mrs.).

In attendance: Mr. R. H. Mayhew, M.P., Parliamentary Assistant to the Minister of Finance; Mr. G. D. Finlayson, C.M.G., Superintendent of Insurance, Department of Finance; Mr. Arthur P. Reid, Vice-President and General Manager, Household Finance Corporation of Canada, and other representatives of Small Loan Companies.

Consideration resumed of Bill 140.

On motion of Mr. Marquis, it was

Resolved: That the following briefs presented to the Committee be taken as read, and that they be printed as part of the Minutes of Evidence:

(a) Letter dated July 9, 1946, from Chagnon and McGillivray, Chartered Accountants, Hamilton, Ontario, addressed to: The Association of Canadian Small Loan Companies, Toronto, Ontario; (*See Appendix "A"*)

(b) Testimony of Mr. Arthur P. Reid, Vice-President and General Manager, Household Finance Corporation of Canada; (*See Appendix "B"*).

(c) Letter dated July 29, 1946, from F. D. Tolchard, General Manager, The Board of Trade of the City of Toronto, addressed to the Chairman, Banking and Commerce Committee. (*See Appendix "C"*)

The Committee adjourned at 4.30 p.m., to meet again at the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 30, 1946.

The Standing Committee on Banking and Commerce met this day at 4 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum and we will proceed. I will call on Mr. Finlayson.

Mr. G. D. Finlayson, Superintendent of Insurance, called.

The WITNESS: Mr. Chairman and gentlemen, since our last meeting I have examined the memorandum prepared by the association and I have prepared some comments on it. I will be able to give a copy of this to the secretary, but in the meantime I can read from it the points that seem most to need attention. I want to say, first of all, that I think the memorandum prepared by the association is a useful contribution to the work of the committee. I believe the association has been formed with a view to encouraging good lending practices among the licensees and we in the department have had evidence that, to some extent at least, this object is being attained. The administration of the Act from the department's point of view has been greatly facilitated by the willingness of licensees to adopt suggestions made by the department's examiners and by their readiness to make any adjustments found to be necessary as a result of inadvertent errors in charges made to borrowers. While some of these comments that I will make may appear to indicate that there still remain practices to be modified or discontinued, it must not be assumed that those practices are common to all lenders. At the same time we cannot overlook the effect of competition in accounting for the spread of practices, some of which threaten to lead to a violation of the provisions of the Act.

As stated at the opening of the proceedings of the committee, the department has regarded the report of the committee of 1938 as a direction to observe closely the experience of the lenders, to ascertain whether the rate of 2 per cent per month is adequate, inadequate or excessive to provide a reasonable return on the capital invested, and to advise the minister if and when the time arrives that a reduction in the maximum rate is justified. It may be that we have misconceived the functions of the department in this respect. If so, we would welcome an indication from the committee that we have overstepped the mark. The report of 1938 said as to rates:—

Finally, the rate of 2 per cent a month recommended in the draft bill must be regarded as an experimental rate. In this relatively new field of finance, procedure has to be largely by way of trial; if error is made by naming a rate too low or too high, it is subject to correction.

The difficulty we have found is in determining who should be looked to for a suggestion for correction if the rate is too high—the lenders, the minister, parliament or the department? We have considered that probably the initiative in that respect lies at the door of the department.

We have also before us the opinion expressed by Mr. Leon Henderson—referred to by Mr. Duff in his evidence on the 4th instant at page 19 of the proceedings—who appeared before the committee in 1938, and at page 76 of the proceedings of 1938 stated:—

I had an opportunity under N.R.A. to see what the code of ethics is in practically all American business.

I may say that Mr. Henderson was about that time in the service of the National Recovery Administration. Continuing:—

I can say unqualifiedly particularly from my close association with the lending business, that if anything the lending companies exceeded American business generally. They had found probably that it was good business, and they had found they were under a stricter pressure. They were under almost constant legislature restriction of course, because of their high rate, and if I may say so, I do not believe that they ought ever to get to the place where the public official takes his finger very far away from their neck. I think that is a very good thing.

And further, in answer to a question as to the security obtainable for small loans (page 79) he said:—

I came to the conclusion that the best way to beat the game, if you ever wanted to, was to find some way of tapping the general flow of wages and vesting your security in the honesty of the common, ordinary person. His reliability with regard to payment and his guarantee of payment is probably the best security in the world today . . . The dependence mainly is on the fact that the person has to have the money, and is reasonably grateful to be able to borrow it in a quiet, decent, businesslike way; and he is very anxious to keep that credit. To my mind, it is very difficult for most of us to get down and understand the real service which a small loan company performs.

Now, that is all preliminary to some of the comments I would make on the association's brief.

I would refer first to page 2 of Mr. Duff's brief. In paragraph 3 at the bottom of the page it is stated that the number of employees required for a given number of accounts is fairly constant throughout the industry. My impression is that there is considerable variation among the lenders in the average number of accounts that can be cared for by an employee in a branch. It has been accepted by some companies that 250 or 300 accounts are a reasonable average, while other companies attain a figure at least 50 per cent in excess of that number. There is probably no business in which the efficiency of the individual worker and ingenuity in devising systems has more scope than the small loans business. There is a still greater disparity among lenders in the average salaries and directors' fees per loan account. The average for small loans companies for 1944 was \$3.54 with minimum \$3.23 and maximum \$6, while for moneylenders the average was \$5.35 with minimum 56 cents and maximum \$19.72.

On page 3 the question is asked, "What is the aim of bill No. 140?" The aim is not, as is suggested there, to increase borrowing. We would gladly see borrowing reduced. The aim of the bill is to permit persons compelled to borrow, to do so at the lowest possible rate consistent with fairness to the lender. The analogy to the retailing of consumer goods suggested on that page is probably not well-founded. There is little difference between the products in the small loans industry. The important thing is the cost of the loan and it is safe to say that that is what most impresses the borrower.

On page 4 it is stated that the effect of the bill will be a monopoly. I should rather expect that there is more danger of a monopoly without the bill

than with it. A large proportion, 75 per cent or more, of the small loans in Canada are now made at rates below 2 per cent per month and that fact will tend to attract more and more of the available business to the lenders operating at the lower rates so long as the other lenders try to carry on at the higher rates. The latter will be inclined to spend more and more money for advertising in their effort to maintain their position. This will mean lower profits and eventually the disappearance of some of those lenders from the field. A reduction in the rate is the best advertisement and the cheapest.

On page 5 the question is raised, "Should a contract for 24 months be at a lower rate than a contract for 15 months?" The Act now provides for a lower rate for the longer term, the maximum for 24 months being $1\frac{5}{8}$ per cent per month as against 2 per cent per month for 15 months. If the bill becomes law, the corresponding rates will be $1\frac{5}{16}$ per cent for the longer term and $1\frac{1}{2}$ per cent for 15 months. With a rate as high as any of these rates, it is desirable that the borrower should be encouraged to repay the loan in as short a period as possible in order to relieve himself from so heavy a burden. The shorter term means, of course, a larger monthly payment and the break in the rate at 15 months is maintained to lessen the burden for borrowers compelled to adopt the longer term for the sake of getting a lower monthly payment. The department is not able to confirm the statement made on this page that the rate of loss is greater in the longer than in the shorter term loans.

On page 6 it will be noticed there is a marked difference between the United States rates and the Canadian rate for small loans. Out of 34 States dealt with, 32 permit rates in excess of 2 per cent per month and in 2 States rates as high as $3\frac{1}{2}$ per cent per month are permitted for all loans. One reason for the lower Canadian rate is the lower rate of loss among Canadian lenders. Mr. Bunce of Iowa in his evidence (page 172 of the 1938 proceedings) stated that in 1933 loss from bad debts ran to 11.3 per cent of loan balances but at the then present time, 1938, it was approaching 5 per cent on loan balances. At that time the rate of loss among the Canadian small loans companies was for the 4 years 1934 to 1937, .27 of 1 per cent. The total net realized averaged loss for these years was \$9,547 on average yearly balances of \$3,584,276, or an average loss of .27 of 1 per cent of loan balances outstanding. That is, the loss was slightly over one-quarter of 1 per cent of the loan balances. Mr. Henderson, in answer to a question as to whether a loss of $\frac{1}{2}$ of 1 per cent would be regarded as large or small, replied (at page 106):—

It would be small for licensed companies. Probably the only time I have seen them use that was when they were trying to sell some of the securities.

and he stated that the difference between $\frac{1}{2}$ of 1 per cent in Canada and 5 per cent in the United States might well justify a lower rate of cost in Canada. The rate that I have mentioned, .27 of 1 per cent, was during the depression period 1934 to 1937. The following figures show the actual figures for that period and for all lenders during the past four years:—

Small Loans Companies	Small loans Net amounts written off		
	Year	Outstanding balances \$	Write offs \$	Recoveries of write offs $
1934	2,353,862	5,886	13,671
1935	2,962,580	30,658	16,673
1936	4,145,066	29,393	16,223
1937	4,875,596	31,941	13,124
1938			
Totals	14,337,104	97,878	59,691

Write offs less recoveries, \$38,187; per cent of balances, 0.27.

Small Loans Companies

Year	Outstanding balances \$	Write offs \$	Recoveries of write offs \$
1941	7,557,414	27,608	
1942	8,485,590	30,602	26,218
1943	9,768,506	29,866	23,401
1944	11,548,303	43,429	20,285
1945			20,214
Totals	37,359,818	131,505	90,118

Write offs less recoveries, \$41,387; per cent of balances, 0.11.

Money-Lenders

	\$	\$	\$
1941	4,187,319	35,303	
1942	4,696,545	50,054	8,961
1943	5,231,360	61,248	17,197
1944	5,785,003	61,602	21,850
1945			22,068
Totals	19,900,227	208,207	70,076

Write offs less recoveries, \$138,131; per cent of balances, 0.69.

All lenders (1941-45)

	\$	\$	\$
Small Loans Companies	37,359,818	131,505	90,118
Money-Lenders	19,900,227	208,207	70,076
Totals	57,260,045	339,712	160,194

Write offs less recoveries, \$179,518; per cent of balances, 0.31.

As will be seen, for the small loan companies the average write-off for the last four years was .11 of 1 per cent of loan balances. I should explain that in getting at those figures we have taken the outstanding balances for the years 1934 to 1937 and 1941 to 1944 respectively, the write-offs for the same years and the recoveries for the following years; because as a rule, recoveries are made in the year following the year of write-off. The moneylenders were not operating under our scrutiny in 1938; but it will be seen that for 1941 to 1944, the write-offs less recoveries, were .69 of 1 per cent of outstanding balances; that is about two-thirds of 1 per cent. Or combining the small loans companies and the moneylenders for that period, 1941 to 1944 inclusive, we have an average of .31 of 1 per cent.

By Mr. Irvine:

Q. May I ask a question there. Do moneylenders under this refer to banks?—A. No. We have no knowledge of the banks' operations at all.

Q. What do you include under moneylenders?—A. Moneylenders are lenders incorporated mostly under the laws of the provinces and not by parliament. The small loans companies are those three companies that have obtained special Acts from the parliament of Canada. They have been operating in Canada since 1928, but we have known the other class officially only since 1939.

On page 7 the loaning by chartered banks at a rate of 6 per cent per annum is referred to on this page and it is stated that only selected credit risks qualify for such loans, but it is probable that the most select credit risks are those whose need for loans is the greatest (see Mr. Henderson's opinion on page 79 of the 1938 proceedings quoted above). It is questionable whether the borrower who has been dragooned into borrowing by persistent advertising has the same sense of responsibility in making repayment as the borrower who is compelled by an emergency threatening health or security to seek a loan.

I have here a sample of advertising which has come into the department with a complaint from the person to whom it was addressed. This is an extract from a mimeographed circular addressed to a group of professional women:—

Have you Ever Come Home From Your Duties With That Tired Feeling?

Want to know a sure cure? Here it is:—

Check over your wardrobe and decide to buy a whole new outfit. Gaze at your apartment critically and think how nice new drapes, a coffee table, and a re-upholstered sofa would look. Reach for the phone and make an appointment for a new hair-do.

Wouldn't it be grand to do all these things?

Wouldn't that tired feeling disappear like magic?

But the problem is how to do it with what money.

That is where we come in.

Now, the comment made by the person who received this circular was that at that time—this was at the beginning of this year when every person was being asked to curtail demands for unnecessary consumer goods—it was not in the public interest that inducements such as this should be held out. I think this advertisement is well prepared; but the question is whether the aim is appropriate to the conditions surrounding the issue.

On page 8 the rate charged for loans by credit unions is stated on this page to be generally 1 per cent per month on the balance outstanding.

Credit unions had their start in Canada in the province of Quebec (Les Caisses Populaires) and later extended to the province of Nova Scotia; in 1942 those two provinces accounted for 70 per cent of the credit union members and 65 per cent of the credit union loans in Canada. Mr. (now Senator) Cyrille Vaillancourt in his evidence before the 1938 committee stated as to Quebec (page 141):—

The interest rate charged varies from 4 per cent to 7 per cent, the average rate being 5 per cent.

Mr. HACKETT: Always substantial endorsers.

The WITNESS: He did not say that.

Mr. IRVINE: Has this anything to do with credit unions?

The CHAIRMAN: I wonder if it would not be wise for us to permit Mr. Finlayson to make his statement and then we will have questions asked.

The WITNESS:

No commission is charged on renewals and interest is charged every month, based on the actual amount outstanding only.

and he gave as an example a twelve-month loan of \$120, repayable \$10 monthly, the monthly charge for interest at 6 per cent annum or one-half of 1 per cent a month, varying from 60 cents for the first month to 5 cents for the last month, or a total of \$3.90 for the whole term of the loan. Professor A. B. MacDonald of the extension department, Saint Francis Xavier University, Antigonish, N.S., stated (page 232):—

I should say the average rate on loans in the province of Nova Scotia would be between six and seven per cent per annum.

It is true that the Credit Union Acts, more or less uniform, provide for a maximum rate of 1 per cent per month or in some cases 12 per cent per annum.

On page 9: the recent reductions in rates by some Canadian lenders are described as "still in the experimental stage" and it is suggested that conditions which made them possible in 1945 are already disappearing. While operating costs may, with the gradual removal of controls, increase during the next few

years, although that is not inevitable, it is safe to say that the increased volume of loans made by lenders at the lower rates and the lower rate of overhead expense resulting therefrom will offset any increase due to a rise in the cost of living index.

On page 10: the opinion is expressed on this page that the enactment of Bill 140 with provision for a maximum rate of $1\frac{1}{2}$ per cent will "breed resentment, suspicion and outright antagonism on the part of Canadian business generally." It is, of course, hard to prove that this forecast is well-founded but from correspondence reaching the Department in recent years it appears that there is more ill-will created by seductive advertising such as that just mentioned, designed to encourage unnecessary spending, than is likely to be produced by a moderate reduction in the cost of loans. On the same page reference is made to the economic conditions prevailing in Canada from 1941 to 1945, making for lower debt losses "since most families had adequate incomes and few debts," and this raises the question why under those conditions so large an increase has taken place in small loans made and outstanding:—

Outstanding small loans balances

	<i>Small loans companies</i>	<i>Money- lenders</i>
1941	\$ 7,557,414	\$4,187,319
1945	13,354,950	7,074,240

It may be that advertising is partly at least responsible.

On page 11: the rising operating expense at the present time is attributed here in part to higher salaries, rentals, cost of advertising, and bad debt losses. As I pointed out in my evidence at the beginning of these proceedings, the item of salaries in the annual statements of the companies evidently includes some measure of withdrawal of profits. This is apparent from the table given below with reference to the present returns to lenders dealt with in the Association's brief. Advertising costs are and have always been on a very high scale and there is as yet no evidence that the net rate of realized loss from bad debts is likely to increase.

On page 12: it is stated that the highest net profit earned in 1944 by any of the three small loans companies was 5.54 per cent of employed assets and that the average net profit of the fifty money-lenders was 2.74 per cent of loan balances. The 5.54 per cent rate is produced by applying the 1944 net profit of the largest small loans company to the total assets of that company; namely, \$587,719 and \$10,623,668 respectively, but the latter figure includes all borrowed money while the former is arrived at by deducting as an expense \$57,856, which is the interest paid on money borrowed in Canada, \$1,250,000, which would indicate that the balance borrowed from the controlling company in the United States, \$2,727,812, only is regarded as capital; deducting \$1,250,000 from the total assets there is left \$9,373,668 as the capital employed, on which the rate of net profit is 6.26 per cent. The rate of return on the money-lender's investment is produced in a similar manner. The balances of small loans outstanding, \$5,785,003, are set against net profits on small loans of \$158,615, but here again the said balances include borrowed money and the net profit is, after charging interest on borrowed money, of \$176,219, making with the net profits a total of \$334,834, or 5.79 per cent of capital employed. If in both the above cases the capital employed is taken as the balances of small loans less borrowed money apportioned thereto, the corresponding rates of return are 6.94 per cent and 8.53 per cent, respectively. It is apparent that the brief on this page repeats the error noted in the evidence of Mr. Bunce of Iowa in 1938 in computing net profits after interest on small loans in that state. A statement of the source of this error will be found in the 1938 proceedings, page 396.

It is stated also on page 12 that twelve money-lenders showed an actual operating loss in 1944. Some items of the revenue account of those twelve companies are given below:—

1944

Company No.	Income Earned		Charged to advertising		Charged as salaries and directors' fees		Net profit	
	Small loans	Other loans	Small loans	Other loans	Small loans	Other loans	Small loans	Other loans
	\$	\$	\$	\$	\$	\$	\$	\$
1.....	27,382	19,264	2,545	540	10,753	2,281	-364	5,024
2.....	10,416	11,018	1,229	327	3,239	5,266	-250	166
3.....	1,440	61	94		780		-356	61
4.....	5,703		1,099		3,991	4,109	-2,382	4,319
5.....	3,424	1,227	538	253	1,636	770	-1,613	-1,319
6.....	3,665	42	322		1,820		-778	42
7.....	15,681	8	634		6,755		-683	8
8.....	7,522	1,586	1,307	13	5,482	609	-3,064	-5,286
9.....	7,185	7,022	1,064		3,101	3,027	-1,041	1,410
10.....	10,776	1,197	1,673	319	4,871	728	-1,468	-544
11.....	2,907	222			4,161	313	-3,139	-1,278
12.....	834	10,291	14	176	234	2,886	-137	4,391
Totals....	96,935	51,938	10,519	1,628	46,823	19,989	-15,275	6,994

It will be noted that the income on small loans was \$96,935 and the charge to small loans for advertising \$10,519, or 10·85 per cent of the small loans income, and the charge to small loans for salaries and directors' fees \$46,823, or 48·30 per cent of small loans income. The average charge to small loans for advertising by all 50 lenders in 1944 was 8·97 per cent of the small loans income and the average charge for salaries and directors' fees 30·95 per cent of small loans income. Had the twelve companies in question limited themselves to these percentages instead of 10·85 per cent for advertising and 48·30 per cent for salaries and directors' fees, they would have earned a profit on small loans of \$3,371.

It is probable that the charge to salaries and directors' fees includes an element of withdrawal of profits; see, for instance, No. 11, in which income earned on small loans was \$2,907 and the amount charged as salaries and directors' fees \$4,161.

The corresponding figures for the same twelve companies in 1945 are given below:—

1945

Company No.	Income Earned		Charged to advertising		Charged as salaries and directors' fees		Net profit	
	Small loans	Other loans	Small loans	Other loans	Small loans	Other loans	Small loans	Other loans
	\$	\$	\$	\$	\$	\$	\$	\$
1.....	26,575	16,285	2,326	47	12,232	250	308	7,856
2.....	10,386	9,338	1,119	262	3,181	5,220	772	-797
3.....	4,888		491		375		993	36
3.....	6,168		972		3,592	4,508	-2,723	5,274
5.....	7,345	6,995	1,086	1,086	2,058	2,058	374	30
6.....	4,154	55	248		1,826		-470	55
7.....	16,714	1	1,068		6,993		-522	1
8.....	7,016	3,007	716	307	3,378	1,462	93	21
9.....	8,143	8,562	732		3,437	3,126	-515	1,721
10.....	9,482	2,709	1,977	624	2,441	689	69	223
11.....	3,795	242			2,364	151		
12.....	564	5,874	17	114	564	3,856	-256	362
Totals....	105,230	53,068	10,752	2,440	42,441	21,320	-1,877	14,782

It will be noted that the income on small loans was \$105,230 and the charge to small loans for advertising \$10,752, or 10·22 per cent of the small loans income, and the charge to small loans for salaries and directors' fees \$42,441, or 40·33 per cent of small loans income. The average charge to small loans for advertising by all 50 lenders in 1945 was 8·93 per cent of the small loans income and the average charge for salaries and directors' fees 30·07 per cent of small loans income. Had the twelve companies in question limited themselves to these percentages instead of 10·22 per cent for advertising and 40·33 per cent for salaries and directors' fees, they would have earned a profit on small loans of \$10,276.

On page 13: The question of the constitutionality of the Act is dealt with; this question was explored at great length by the 1938 committee. The department itself was at that time not clear as to where the line of division between the fields of jurisdiction of dominion and provinces, respectively, was to be found. This point is referred to in the department's report for 1936, pages 6, 70, 76, and 117; a number of relevant legal decisions are found on pages 77 to 113; on the latter page there is given Mr. Justice Greenshields' statement in the Superior Court of Montreal in the case *Middleton v. Silver Plan, Limited*.

I was not able to get the official report of that decision, but a report taken from the *Montreal Gazette* quotes the court as saying:—

With much care, the company's counsel has submitted a very able statement all going to show that under the Civil Code of this province there is no law against usury. . . .

The legislators of Canada may or may not have been aware that usury was not covered by the Civil Code of this province. Whether or not they had that knowledge, they proceeded to legislate upon the matter and they enacted a statute, The Money-Lenders Act.

* * * *

The defendant baptized the transaction as a contract of sale and denied it was a contract of loan but the affirmative statement does not make it a contract of sale, nor does the denial that it is a contract of loan make it anything less than a loan if the whole transaction is nothing but a disguised loan. From beginning to end the whole transaction was an advance of money for a specified time, with the obligation to repay at an usurious rate of interest.

Convictions have been secured in the following cases under the provisions of the Small Loans Act:—

- Ida Geller, in the District Judges Criminal Court in Sudbury, Ontario, in 1941;
- J. E. Boyd and L. E. P. Jones, in the Magistrates Court, Ottawa, in 1941 and 1942;
- Traders Discount Corporation, Stephen T. Doughie and C. A. Hallbert, in the County Court, Winnipeg, in June, 1946.
- Action against W. T. Short, in the Magistrates Court in Ottawa, in 1942, was dismissed.

A copy of the reasons for judgment in the Geller case is to be found on page 51 of the department's report for 1940. In this case at least the question of constitutionality was raised and disposed of by the court in favour of the dominion's jurisdiction and there was no appeal from that decision.

The brief suggests on page 15 that a sub-committee of the lawyer members of this committee investigate the question of constitutionality and report back to the committee. To this or to any other suggestion best designed to determine where jurisdiction in the matter lies the department can take no objection

but it is not apparent that a report by such a sub-committee would necessarily prevail against the declarations of the courts. The department has proceeded on the assumption, after the full investigation in 1938, that the dominion has jurisdiction; it realizes that no doubt on the question should be allowed to remain so that, should at any time supervision become distasteful to any lender, the question of authority in the administration might be effectively raised. It is not desirable that supervision should be exercised merely on sufferance or by consent to be discontinued when any supervised operator thinks the right time for doing so has arrived.

Page 15

Among the suggestions made for amendment of the Small Loans Act on this and following pages are the following:—

Discontinuance of duplicate bookkeeping at the head offices of the lenders.

No doubt some saving could be effected if this were done but it would make necessary an examination by the department at every branch and the increased expense of supervision which is apportioned and charged to the lenders would go far to counteract any such saving. The head office of such an organization is naturally looked to as the place to find the financial results of operation.

It is questionable whether it is desirable to permit loans to be made without monthly repayments. Should that course be permitted, it is likely that loss from bad debts would increase. An obligation to reduce the indebtedness at approximately monthly intervals is helpful to both borrower and lender.

Page 16

It is suggested that the present ministerial policy of refusing licences for reasons not set forth in section 5 (2) of the Act should be examined. This probably refers to the departmental practice since 1941 of withholding the issue of licences to applicants entering the field for the first time since December 31, 1939, this policy having been considered consistent with order No. 225 of the Wartime Prices and Trade Board respecting consumer credit and instalment buying. The reasons for deferring action on such applications have been stated as a rule in the following terms:—

Since the coming into force of the Wartime Prices and Trade Board order in 1941 respecting consumer credit, applications for licences under the Act are not being favourably considered, it being felt that to do so would tend to expand credit facilities in respect of instalment sales and loans which the order was purposely designed to restrict.

It is suggested also that complaints of violations of the Act made to the department should be promptly investigated and appropriate steps taken in respect thereof. I am unaware of any complaints of the activities of unlicensed lenders which have not been investigated and proper action taken. Lenders have been encouraged to bring irregularities to the attention of the department. This suggestion may be prompted by a complaint made in one case against a licensed lender, without a definite charge but with a narration of suspicious circumstances, by another licensed lender.

I may say that in that case the implications were examined into by the department and no action deemed necessary. If it is desired to have all the facts placed before the committee, I would suggest that the complainant and the accused lender be asked to submit the facts to the committee. I am satisfied that the accused is as anxious to have the matter disposed of to the satisfaction of the committee as is the plaintiff.

The department has no knowledge of having ruled that a lender may not vary the rate of loans in different localities or that a ruling on such a question has ever been requested. The Act fixed a maximum rate of cost of loan and

there is nothing to prevent any lender from charging a lower rate of cost in any locality in which conditions justify such action; needless to say, arbitrary discrimination in rates not justified by conditions should be avoided.

Page 17

Section 32 of the Loan Companies Act, respecting the creation of preferred stock, is referred to. This reference probably arises from an application from a company to make such an issue with a view to reducing taxation. Full details will be submitted to the committee if desired.

Page 18

It is suggested that the reduction in the cost of loan from 2 per cent per month to 12 per cent per annum after final maturity date should be eliminated. That refers to a provision in the Act which says that after the final instalment date has arrived, the rate of 2 per cent is reduced to 12 per cent. This is linked up really with the provision requiring a lower rate than 2 per cent per month for loans for terms longer than fifteen months; obviously the latter requirement could be nullified by a loan for 15 months or less being indefinitely prolonged by action of the lender.

There should also be considered the practice of some lenders of encouraging as made to "new" borrowers (not previously on the lender's books), "repeat" to on pages 114 to 117 of the Department's Report for 1936. It has been stated to the department by some lenders that they disapprove of that practice but have been compelled to defend their position and to adopt the practice through stress of competition from lenders following that course as a general practice.

The annual statements made to the department show loans made classified as made to "new" borrowers (not previously on the lender's books), "repeat" borrowers (with former loans fully repaid), and "current" borrowers (with loans still outstanding), and it is perhaps significant that the chief development has been in the latter two classes. Loans to "new" borrowers have from 1940 to 1945 decreased in percentage of total from 43 per cent to 25 per cent, loans to "repeat" borrowers have increased from 16 per cent to 26 per cent, and loans to "current" borrowers have increased from 41 per cent to 49 per cent. This may indicate merely satisfactory treatment of borrowers by lenders. On the other hand, it may indicate the effect of solicitation for increased loans.

On page 19, the Brief asks whether the department's practice in exercising control over advertising does not amount to a regulation of business and not merely the protection of borrowers from excessive rates of charge on money borrowed. This may refer to the following memorandum for licensees regarding advertising, dated April 5, 1940.

RE ADVERTISEMENTS

Considerable correspondence has passed between licensees and the department on this subject and objection has been taken by the department to certain features of advertisements and circulars.

In order that all licensees may be advised of the department's suggestions, this memorandum has been prepared:—

1. The Act is not an Act of the Dominion Government. Governments do not ordinarily legislate. The Act is an Act of Parliament and if referred to should be correctly described;
2. The rates of cost are not fixed, authorized or approved by the government. Certain maximum rates are authorized by The Small Loans Act, 1939;
3. Several states on this continent fix, and several licensees under this Act charge, rates of cost less than the said maximum rates. Great care should therefore be taken before using such expressions as "Lowest rates available." Superlatives in any case are dangerous;
4. Advertisements should not attempt to estimate the total cost in dollars of any loan unless it is clearly stated that such estimate is based on the assumption that all payments called for by the contract are made when due;

5. If licensees loan in amounts over \$500 and advertise such loans, no reference to the licence should appear in such advertisements, whether or not loans of \$500 or less are referred to. This ruling will apply also to the advertising of any other portion of the company's business which is not regulated by the Act.

No further formal ruling has been made on this subject but many points have arisen in correspondence with lenders as to the desirability of certain features of advertising being continued. The views of the department and the lenders in question have been fairly well reconciled as a result of such correspondence but the consideration of the committee to any cases of disagreement is invited by the department. There is also attached the provision in force in Great Britain in respect of advertising by small loan lenders.

On page 22 the brief states that with the passing of this bill lenders might refuse to make loans for less than \$100 or might refuse to operate offices in communities where the potential volume is small; the alternative would be their withdrawal from the licensed lending field. It is safe to say that there is little likelihood of any of these courses becoming necessary.

In 1938 the same fear was expressed. Up to 1940 the only lenders under dominion jurisdiction were the three small loans companies and none of those three companies showed any loans of less than \$50 and in 1939 the three combined showed as made 22,471 loans of less than \$100 for a total amount of \$1,601,977, while in 1940, the first year of the operation of the new Act, the same companies made 6,297 loans of less than \$50 for an amount of \$190,590 and 29,678 loans of \$50 to \$99 to an amount of \$1,888,927. The corresponding figures for 1945 are for all lenders:—

Small loans companies	Number	Amount
Less than \$50	7,731	\$ 246,085
\$50 to \$99	40,121	2,519,942
Money-lenders		
Less than \$50	3,183	97,675
\$50 to \$99	17,945	1,119,664
Both combined		
Less than \$50	10,914	343,760
\$50 to \$99	58,066	3,639,606

There is no doubt that with a reduction in the rate less emphasis will be placed by lenders on the smaller loans but it is doubtful whether any lender will refuse to make the smaller loans when applied for, for the reason that a small loan may all too easily develop into a larger loan and an initial loss be recouped later on.

The reduction in the rate will largely eliminate the necessity for advertising and with the increased volume of lending the overhead expense will become less. In Great Britain there is a rigid limitation on the extent of advertising that such lenders can pursue; briefly, in the absence of a written request therefor a lender is prohibited from sending to any person any circular or other document advertising the lender or containing an invitation to borrow money, and is prohibited from publishing in any newspaper, any advertisement other than one giving the address at which he carries on business, a statement that he lends money with or without security. And the highest and lowest sums that he is prepared to lend.

With advertising limited in this way, it is probable that a charge of 1 per cent of income will cover that item of expenditure and with a reduction of overhead administration costs the business on the new basis will yield a profit. Assuming, for instance, an advertising charge of one per cent of the income earned on small loans and a charge for salaries and directors' fees only to 25 per cent of such income, the money-lenders as a whole, should earn on the new basis on small loans 14.34 per cent of net income or 8.59 per cent on paid capital and balance of profit and loss.

Effect on Earnings of a Reduction in Rate

The following statement gives some idea of the effect on money-lenders of a reduction in earnings on small loans as a result of a reduction in the rate of cost of loan to $1\frac{1}{2}$ per cent per month. In the case of one company now charging $1\frac{3}{4}$ per cent per month this will be a reduction of approximately one-seventh of present earnings and in the case of the other money-lenders of approximately one-quarter. This loss in earnings can be compensated for by a drastic reduction in advertising costs and a moderate reduction in salaries and directors' fees. Assuming that no other economies are possible, the following shows the earnings on the new basis and the percentage thereof on small loans income and on combined paid capital and profit and loss:—

Reduction from 2 p.c. to $1\frac{1}{2}$ p.c. per month

1945	One Company	Others	Total
	\$	\$	\$
Earned on small loans.....	743,876	661,496	1,405,372
Deduct 1/7.....	106,267	.....	106,267
Deduct 1/4.....	.....	165,374	165,374
Reduced Income.....	637,609	496,122	(1)1,133,731
Advertising.....	82,925	42,540	125,465
Less.....	76,549	37,579	114,128
	6,376	4,961	(2)11,337
Salaries and directors' fees.....	226,078	196,476	422,554
Less.....	66,676	72,445	139,121
	159,402	124,031	(3) 283,433
All other expenditure.....	356,768	341,715	698,483
Less recoveries of write offs.....	11,332	10,736	22,068
	345,436	330,979	(4) 676,415
Reduced expenditure [(2)+(3)+(4)].....	511,214	459,971	(5) 971,185
Profit (1) - (5).....	126,395	36,151	(6) 162,546
Paid capital (apportioned to small loans business).....	337,000	1,371,000	1,708,000
Profit and loss (small loans).....	114,060	69,985	184,045
Total capital plus profit and loss.....	451,060	1,440,985	(7)1,892,045
	p.c.	p.c.	p.c.
Profit [p.c. (6) of (1)].....	19.82	7.29	14.34
Profit [p.c. (6) of (7)].....	(a) 28.02	2.51	(a) 8.59

(a) This company issued capital stock at a premium of \$375,000. Treating this amount as capital and apportioning it as above these percentages are reduced to 17.95 p.c. and 7.58 p.c. respectively.

The CHAIRMAN: Gentlemen, I fear we are going to lose our quorum. Shall we adjourn until 4 o'clock on Thursday afternoon? The Household Finance Corporation have indicated that they would like to make a presentation; and I think it would be well for members of the committee at that time to decide whether we should continue our studies in view of the terrific pressure of work in the House and in other committees.

Mr. HACKETT: You will recall, Mr. Chairman, that the Radio Broadcasting Committee has issued an order, an invitation or a notice for sittings at, I think it is, from 10 o'clock to 1 o'clock and from 4 till 6 p.m. on Thursday and Friday, in an effort to finish their work so that legislation can be brought down.

The CHAIRMAN: Yes. I would think that it is only right and proper that Household Finance Corporation should have a hearing and be on record, if they wish that. But I would very much doubt the advisability of this committee attempting to complete the study of this bill at this session. I think at the next meeting the committee should decide what should be done.

Mr. HACKETT: Will you, Mr. Chairman or Mr. Finlayson tell us when it was that a bill was introduced and I think rejected for the incorporation of the first small loans company? Was it in 1932 or 1933?

The WITNESS: The first small loans company?

By Mr. Hackett:

Q. Yes.—A. The first small loans company was incorporated by parliament in 1928 under the name of Central Finance Corporation which is now Household Finance Corporation.

Q. Was there not a bill in the early thirties to incorporate another company?

By the Chairman:

Q. Was there not a bill the year before we had a general study?—A. Yes, there were two bills introduced and rejected in 1936 or 1937.

By Mr. Hackett:

Q. No, no. In the early thirties.—A. Well, I do not recall it.

The CHAIRMAN: I think we shall have to ask Mr. Hackett about this. I was not here then.

The WITNESS: There may have been.

Mr. HACKETT: I remember it.

The CHAIRMAN: The clerk says there were two in 1934.

Mr. HACKETT: That may be. He would know.

The CHAIRMAN: Shall we adjourn then, until 4 o'clock on Thursday?

Mr. IRVINE: Mr. Chairman, if we do not go on with this, it is equivalent to killing the bill providing for the reduction of the interest rate.

The CHAIRMAN: It would not be killing the bill, Mr. Irvine. It would mean facing up to actual facts. I would hope that it will be early on the order paper next session and that the study then can be carried on in a proper and orderly fashion.

Mr. JACKMAN: Mr. Chairman, in view of the motion for adjournment and the fact that at our next meeting we will consider whether to continue or not, because of the pressure of time and our endeavours to close the session, I wonder whether it is necessary for us to hold a next meeting? There is no legislation immediately impending, and I think Household Finance would prefer to have its evidence fresh when the matter comes up again, if it does, rather than to put in their evidence at the tail end of these hearings when everybody is so busy.

The CHAIRMAN: I will find out what their preference is.

Mr. JACKMAN: Mr. Wood is here and probably you, Mr. Chairman, could ask him whether he is in a position to speak for the company.

The CHAIRMAN: The point is, Mr. Wood, whether you prefer to present a brief at this time, or if the committee decides not to complete its work at this session would you rather let the matter drop?

Mr. WOOD (Household Finance Corporation): Might I have an opportunity to consult with my president?

The CHAIRMAN: Certainly, and advise me by mail.

Mr. WOOD: Yes, sir.

The committee adjourned to meet Thursday, August 1, at 4 o'clock p.m.

APPENDIX A

STATEMENT BY CHAGNON & MacGILLIVRAY TO THE ASSOCIATION
OF SMALL LOAN COMPANIES

July, 9, 1946.

The Association of Canadian Small Loan Companies,
217 Bay Street,
Toronto 1, Ontario.

Gentlemen;—In view of proposed legislation to revise The Small Loans Act, 1939 by reducing the maximum small loan rate as set forth in the Act, from 2 per cent per month to 1½ per cent per month or less, you requested that we prepare an independent report showing the effect such revision would have on the earnings of Small Loans Companies and Money-lenders licensed under the Act, and any other data along the same line from the accountants' point of view, which might be of value in considering the change proposed by Bill 140.

Sources of Information

Unless otherwise noted, all figures appearing herein with respect to 1944 operations were obtained from the Report of the Superintendent of Insurance to the Minister of Finance on the financial statements for the year ended December 31, 1944 of (the three) Small Loans Companies and (the fifty) Money-lenders licensed under The Small Loans Act, 1939.

The figures concerning 1945 operations were obtained from the printer's copy of the Report of the Superintendent of Insurance, covering the 1945 operations of the three Small Loans Companies and fifty-one Money-lenders.

Proportion of Small Loan Income to Total Income

The following tables indicate the tremendous extent to which licensees under the Act are dependent upon small loan business.

	Income earned on small loans	Total income	P.C. of small loan income to total income
	1944	1944	1944
	\$	\$	p.c.
The 3 Small Loans Companies.....	2,439,447	2,462,264	99.1
50 Money-lenders.....	1,237,549	1,984,625	62.4
Totals 1944.....	3,676,996	4,446,889	82.7
	1945	1945	1945
	\$	\$	p.c.
The 3 Small Loans Companies.....	2,430,645	2,618,451	92.8
51 Money-lenders.....	1,405,372	2,321,139	60.5
Totals 1945.....	3,836,017	4,939,590	77.7

Effect on Gross Income

Reducing the small loan rate from 2 per cent to 1½ per cent per month would reduce gross income from small loans by 25.7 per cent, if twelve months be taken as an average small loan term—the small increase over 25 per cent resulting from the mathematical factor on monthly balances outstanding. This loss of 25.7 per cent in gross income from small loans has been taken into our calculations in this report with respect to the figures for the year 1944.

As regards the year 1945, we found that a few of the companies voluntarily reduced their rates on new loans effected early in that year. Before that time, most companies had been on a 2 per cent monthly rate. The principal small loans company reduced its rate from 2 per cent to $1\frac{1}{2}$ per cent on an experimental basis to see if operations could be maintained profitably. Considering the number of loans made prior to the reduction and continuing at the old rate during 1945, the effective rate for this company has been taken as $1\frac{3}{4}$ per cent in 1945. A reduction from this effective rate to $1\frac{1}{2}$ per cent would represent a loss of 14·3 per cent in small loan revenue based on an average loan term of twelve months. Of the remaining licensees some reduced their rates to $1\frac{3}{4}$ per cent, others remained at 2 per cent or gave reduced rates on small loans over a certain amount: e.g. \$300. It seems reasonable to regard the effective rate as $1\frac{7}{8}$ per cent for these licensees during 1945. A forced reduction from this rate to $1\frac{1}{2}$ per cent would represent a loss of 20·4 per cent in small loan revenue based on an average loan term of twelve months. These losses of 14·3 per cent and 20·4 per cent have been taken into our 1945 calculations in this report.

Reduced Interest Charges on Money Borrowed by Lenders

It is difficult to determine to what extent the borrowing of money has become cheaper since 1944. The table below shows the decrease in yield on Dominion of Canada Perpetual Bonds, the market price of which is considered to be representative of the trend of interest rates:—

<i>Dominion of Canada Perpetual Bonds</i>		
<i>Date</i>	<i>Asked Price</i>	<i>Yield</i>
December 31, 1944.....	98	3·06%
December 31, 1945.....	99 $\frac{3}{4}$	3·02%
June 8, 1946.....	104 $\frac{1}{4}$	2·88%

Reduction in yield is 5·9 per cent from December 31, 1944 to June 8, 1946. In schedules Nos. 1 and 2 attached we have taken a generous rate of 10 per cent to allow for possible further reductions in interest which Association members may receive on their borrowings. This 10 per cent reduction represents a fair average, if some companies reduced their borrowing rates from $5\frac{1}{2}$ per cent to 5 per cent, and others from 5 per cent to $4\frac{1}{2}$ per cent.

Although it is a fact that borrowing costs are presently lower than in 1944, this is not an important factor in the expenses of the lenders. The interest costs of all reporting companies in 1944 were \$395,575, whereas the expenses for rents, advertising, salaries and other costs (excluding bad debts, interest and taxes) totalled \$2,123,733. The saving in interest expense is negligible when compared with the decrease proposed in the lenders' rate of charge, and when compared with the general increase in other expenses.

Rising Trend in Expenses

The current experience of all business with rising expenses is well known. The loan companies are finding their expenses (other than interest) to be increasing continuously. Salary expense is one of the largest items in their expenditure, and this is now jumping rapidly as war ceiling rates are being lifted. During the war, women clerks replaced many men who went into His Majesty's Armed Forces, and now as these men return they are being taken back by the companies at considerably higher salaries than were paid before. Rents and advertising rates are moving up, as are paper, automobile and other main expenses. The experience of the 53 licensees on which we have figures for 1944 and 1945 is given herewith:—

	Year 1944		Year 1945	
	Amount	P.C. to total income	Amount	P.C. to total income
Total Income.....	\$ 4,446,889	p.c. 100	\$ 4,939,262	p.c. 100
Salaries and Directors' Fees.....	1,032,836	23.2	1,319,647	26.7
Advertising.....	257,424	5.8	312,592	6.3
All Other Expenditures, excepting bad debts, interest and taxes.....	833,473	18.7	885,079	17.9
Total.....	\$2,123,733	47.7	\$2,517,318	50.9

The increase in level of such expenses from 1944 to 1945 was 3.2 per cent of total income.

Subsequent experience would indicate that expenses have continued to rise into 1946 by at least the same ratio. In our conclusions, we have assumed an increase of 6.4 per cent from 1944 to 1946.

At the date of this report it would appear that the trend is still rising.

Decline in Taxes on Income

As the profits of the member companies decline, so also will the taxes which they pay on their taxable income. The effective rate of tax at present is in the neighbourhood of 40 per cent for these companies. The proposed change in the maximum chargeable rate to $1\frac{1}{2}$ per cent, as shown on Schedule No. 1, would reduce the member companies' income from the 2 per cent 1944 basis by \$944,988. This would result in a loss of income and excess profits taxes to the Dominion Government of approximately \$377,995 annually. Similarly from the generally effective $1\frac{3}{4}$ per cent and $1\frac{3}{4}$ per cent rates of 1945, the proposed change to a maximum rate of $1\frac{1}{2}$ per cent would reduce the income of member companies by \$658,905 as shown in schedule No. 2 and would cause the Dominion Government an annual loss of \$263,562 in taxes on income at the present rates.

Rate Earned on Average Total Assets Employed

By averaging the assets employed at the first and at the end of the year 1944 we have been able to prepare the following earnings rates for 1944, when 2 per cent was the effective monthly rate charged by all licensees:

Small loans companies	1944		1944 Total
	Small loans	Other loans	
	\$	\$	\$
Average Loans Outstanding.....	10,658,407	3,041	10,661,448
Average All Other Assets.....	935,072	685	935,757
Total Assets.....	11,593,479	3,726	11,597,205
Net Profit after taxes.....	645,670	350	645,320
Earned on Average Total Assets Employed.....	% 5.57	% 9.39	% 5.56
<i>Money-lenders</i>			
Average Loans Outstanding.....	5,508,181	3,985,313	9,493,494
Average All Other Assets.....	833,803	1,320,175	2,153,978
Total Assets.....	6,341,984	5,305,488	11,647,472
Net Profit after taxes.....	158,615	113,102	271,717
Earned on Average Total Assets Employed.....	% 2.5	% 2.13	% 2.33

The comparable figures for 1945 are as follows:

Small loans companies	1945 Small loans	1945 Other loans	1945 Total
Average Loans Outstanding.....	12,451,611	769,089	13,220,700
Average All Other Assets.....	1,807,840	99,437	1,907,277
Total Assets.....	14,259,451	868,526	15,127,977
Net Profit after taxes.....	753,394	101,247	854,641
Earned on Average Total Assets Employed.....	% 5.3	% 11.7	% 5.6
<i>Money-lenders</i>			
Average Loans Outstanding.....	6,429,621	4,603,049	11,032,670
Average All Other Assets.....	1,080,330	2,087,676	3,168,006
Total Assets.....	7,509,951	6,690,725	14,200,676
Net Profit after taxes.....	181,896	181,729	363,625
Earned on Average Total Assets Employed.....	% 2.4	% 2.7	% 2.6

These figures indicate a very low rate of earnings on the amount of assets used in the business when compared with other industries and other financial concerns.

Schedules No. 1 and No. 2 Attached

We have prepared figures summarizing the results of our findings and they are attached hereto as:

Schedule No. 1—1944, and
Schedule No. 2—1945

These schedules are based on the actual figures reported by the companies for 1944 and 1945, and take into account the losses resulting from the reduction in small loan income and from higher operating expenses as well as the anticipated savings from interest paid on borrowings and from reduced taxes on income. No account is taken of future changes in the volume of business handled.

The principal result revealed by these schedules is the drastic loss of profits by the small licensees if the proposed Bill 140 becomes law. The better over-all picture in 1945 is brought about almost entirely by the comparatively successful operations of the principal Small Loans Company. The best efforts of all the other licensees would result in only a trifling net profit, many probably sustaining a disastrous loss and being forced to cease operations.

National Importance of Loan Business

The importance of the small loan business to our economic life is shown by the fact that over 234,000 small loans were made by licensees under the Act in 1944 placing over \$35,000,000 mostly into the hands of retailers and other persons handling more or less quick-turnover commodities. In 1945, over 264,000 small loans were made having a value of more than \$41,000,000. The value of this purchasing power pyramiding as it does in the quick-turnover field should be of considerable importance to our reconstruction period.

CONCLUSION

Our studies indicate that while the principal Small Loans Company together with several money-lenders who specialize in business other than small loans might be able to temporarily endure the proposed reduction, the majority of the other licensees would be disastrously affected.

The 1944 report of the Superintendent of Insurance on all licensees shows that twelve out of the fifty Money-lenders showed a loss on small loan business in that year, while thirteen others made profits of less than \$1,000. Although total gross income for the year 1945 was increased, nine out of 51 licensees failed to earn profits on small loans and fifteen others earned profits of less than \$1,000. To make the drastic reduction in their revenue contemplated by the proposed legislation would probably force most of these licensees out of business in a very short time.

Thus it can be seen that probably 24 of the 51 licensed Money-lenders would be operating at a loss under the provisions of Bill 140, and others would be carrying on business at such a negligible profit that they would not find it worth while to keep their doors open.

A number of factors make the future outlook very dark for most member companies. These include inflationary and other large jumps in the cost of doing business, increased competition from chartered banks, a lower level of less steady employment, much greater expectancy in bad debts—and now a heavy reduction in the maximum monthly rate chargeable as proposed in the new legislation. It would, therefore, appear that the present is *not* the time to pin down the licensees under the Act to the lowest rates ever charged on small loans by any one of them—but rather is it the time to allow some leeway to provide for larger credit losses and other impending costs even now foreseeable. Competition has brought rates down voluntarily, and no such close ceiling should be applied to prevent rates from rising naturally under adverse future conditions.

The average rate earned by the companies on their Average Total Assets Employed is very low. In view of the uncertain and risky nature of the loan business, the companies under review should definitely be allowed a higher rate of return on total average assets than is allowed to more stable and less risky business.

In our considered opinion the provisions of Bill 140 will cause losses and force many licensees out of business, will cut natural competition and direct most of the loan business into a few hands, and will not permit many of the surviving licensees to operate at a reasonable profit, or even to set aside necessary reserves for depressed conditions in the future.

Reported by,

CHAGNON & MACGILLIVRAY,

Chartered Accountants.

SCHEDULE No 1—1944

Year Ended Dec. 31, 1944	Principal Small loans company	2 small loans companies and princi- pal Money- lender	49 money- lenders	Totals
	\$	\$	\$	\$
1. Total Income from all sources.....	2,052,744	1,269,554	1,124,591	4,446,889
2. Net Profit before rate revision.....	587,719	181,992	147,326	917,037
3. Income Earned on Small Loans.....	2,032,596	1,024,457	619,943	3,676,996
4. Loss of 25.7 p.c. of item 3, resulting from proposed rate reduction from 2 p.c. to 1½ p.c. per month.	522,377	263,286	159,325	944,988
5. Interest Paid on Money Borrowed for all purposes.	57,856	153,239	184,480	395,575
6. GAIN due to assumed reduction of 10 p.c. on item 5.	5,786	15,324	18,448	39,558
7. Loss in years subsequent to 1944 due to an estimated increase in operating expenses of 6.4 p.c. of item 1 (see attached report).....	131,376	81,251	71,974	284,601
8. Net Decrease in Profits resulting from items 4, 6 and 7.....	647,967	329,213	212,851	1,190,031
9. GAIN due to reduction in Income and Excess Profits Taxes of 40 p.c. of item 8.....	259,187	131,685	85,140	476,012
10. Final Net Decrease in Profits brought about by above adjustments (item 8 less item 9).....	388,780	197,528	127,711	714,019
11. NET PROFIT OR Loss after rate revision (item 2 less item 10).....	198,939	15,536	19,615	203,018
12. P.c. of Net Profit to Employed Assets—				
(a) before rate revision.....				p.c. 3.9
(b) after rate revision.....				.9

SCHEDULE No 2—1945

Year Ended Dec. 31, 1945	Principal small loans company	2 small loans companies and principal money- lender	50 money- lenders	Totals
	\$	\$	\$	\$
1. Total Income from all sources.....	2,194,854	1,488,343	1,256,393	4,939,590
2. Net Profit before rate revision.....	797,026	203,671	217,569	1,218,266
3. Income Earned on Small Loans.....	2,026,923	1,147,598	661,496	3,836,017
4A. Loss of 14·3 p.c. of item 3 (Principal Small Loans Company only) resulting from proposed effective rate reduction from 1½ p.c. to 1¼ p.c.....	289,850			289,850
4B. Loss of 20·4 p.c. of item 3 (All Other Licensees) resulting from proposed effective rate reduction from 1-7/8 p.c. to 1½ p.c.....		234,110	134,945	369,055
5. Interest Paid on Money Borrowed for all purposes.....	67,092	186,680	195,741	449,513
6. GAIN due to assumed reduction of 10 p.c. on item 5.....	6,709	18,668	19,574	44,951
7. Loss in years subsequent to 1945 due to an estimated increase in operating expenses of 3·2 p.c. of item 1 (see attached report).....	70,235	47,627	40,205	158,067
8. Net Decrease in Profits resulting from items 4A, 4B, 6 and 7.....	353,376	263,069	155,576	772,021
9. GAIN due to reduction in Income and Excess Profits Taxes of 40 p.c. of No. 8.....	141,350	105,228	62,230	308,808
10. Final Net Decrease in Profits brought about by above adjustments (item 8 less item 9).....	212,026	157,841	93,346	463,213
11. NET PROFIT after rate revision (No. 2 less No. 10).....	585,000	45,830	124,223	755,053
12. P.c. of Net Profit to Employed Assets—				p.c.
(a) before rate revision.....				4·2
(b) after rate revision.....				2·6

APPENDIX B

BRIEF SUBMITTED BY MR. ARTHUR P. REID, VICE-PRESIDENT
AND GENERAL MANAGER, HOUSEHOLD FINANCE
CORPORATION OF CANADA

"COST" OF LOAN NOT INTEREST

The maximum monthly rate of 2 per cent on outstanding balances which Mr. Ilsley suggests should be reduced to 1½ per cent includes not only interest but every other operating expense including cost of acquisition and collection, legal fees, etc., not usually experienced in secured loans of the investment type.

The Minister claims that existing rates on Small Loans are "unnecessarily high in the light of recent changes in interest rates."

An examination of the latest annual report on Small Loan licensees published by the Superintendent of Insurance reveals that in 1944 all such 53 licensees collectively paid in interest on borrowed money used in their businesses \$259,807. This sum represents only 7·06 per cent of aggregate gross revenue.

Some operators have had their Bank interest rates reduced from 5 per cent per annum to $4\frac{1}{2}$ per cent per annum.

Assuming that the ordinary usual costs of doing business remained constant, one might assume that any economy resulting from a reduction in Bank interest rates from 5 per cent to $4\frac{1}{2}$ per cent per annum on borrowed money used to service Small Loans might justify a reduction in the monthly Small Loan rate of $\frac{1}{2}$ of 1 per cent. However, this saving is more than offset by rising operating costs which are presently increasing at the rate of approximately 3 per cent monthly. The government seek to reduce the maximum rate by 25 per cent.

In the face of these facts, Mr. Ilsley's explanation of the reasons for this Bill to amend the Small Loans Act, which appears to have worked well, are inadequate and misleading.

INCREASE OF SMALL LOAN VOLUME DOES NOT OF NECESSITY REDUCE THE RATE OF OVERHEAD EXPENSE

An examination of Mr. Finlayson's reports for the years 1942, 43, 44 and 45 will reveal that the increase in Loan Account volume is attributable almost entirely to the operations of the four largest licensees and with by far the largest percentage of such increase attributable to Household Finance Corporation and Campbell Finance Corporation. Although Mr. Finlayson's reports do not so indicate, the fact remains that this large increase in loan volume is primarily due to the servicing of new territory by the opening of additional Branch Offices.

Up to a point it is proper to assume that a Branch Office or a Company as a whole may continue to expand without adding materially to its operating expense but, inasmuch as the Small Loan business is a Service business and an employee can only handle a limited number of accounts (on the average, approximately 300), there comes a time when overhead starts to increase in relation to the volume of business being done. Such increased overhead is reflected particularly in the following Expense Accounts: Salaries, Rent, Printing and Stationery, Office Supplies, Light, Telephone, Automobile Expense, etc. Even the Administrative Staff requires to be enlarged as the volume of business increases in order to provide adequate supervision, personnel training and to care for the increased accounting problem.

Then, too, it must be remembered that even in normal times Operating Expenses vary. During a period of unemployment, collection costs rise materially while at the same time the lender's market is considerably restricted due to the inability of unemployed people to qualify for loans.

During the War years, we experienced a period of almost perfect employment conditions. Workers who formerly had been overloaded with instalment debt liquidated such debt and got on their feet again and were then able to borrow for such constructive purposes as providing medical and surgical attention for their families, buying fuel, repairing their homes, etc. There was practically no delinquency and particularly from 1943 on, Loan Account volume rose although, as previously explained, most of this increase was attributable to the opening of new offices.

The Company I represent commenced business in Canada in 1928 and at the end of 1932 had a Loan Account slightly in excess of \$400,000. As at December 31, 1945, our Loan Account had risen to approximately \$12,000,000. So you will see that this entire expansion having taken place between the first of 1933 and the end of 1945, our Canadian business has not yet met the test of a depression. It is significant that in one depression year, our parent Company in the United States wrote off its books approximately six per cent of its outstanding Loan Account.

The rate of loan cost authorized by the Small Loans Act is a maximum rate. Such maximum rate should be adequate to permit the lender to build up, during prosperous times, protection against times of depression. It should be

high enough to encourage him to provide Small Loan service in small as well as large centres. It should be high enough to encourage the lender to make the very small loans to perhaps the most necessitous bracket of borrowers as well as the larger more profitable loans. It is more expensive to do business in certain communities than it is in others. The maximum rate should be such as will permit the lender to profitably do business throughout the country and to provide a loan service for and popular with those who need it and want it.

THE REDUCED RATE OF "LOAN COST" RECOMMENDED IN BILL 140 IS NOT THE SAME AS HOUSEHOLDER'S PRESENT RATE

At the present time, Household charges a rate of $1\frac{1}{2}$ per cent monthly on outstanding balances, on all loans subject to the Act, for loan terms up to 24 months.

Bill 140 provides for a rate of $1\frac{1}{2}$ per cent monthly only on loans repayable in periods not exceeding 15 months. Contracts drawn for longer maturities carry a cumbersome confusing sort of rate which becomes progressively lower as pay out period is extended. This proposed rate section produces rates as under:

16 months	.....	$1\frac{15}{32}\%$	per month
17 months	.....	$1\frac{15}{34}\%$	" "
18 months	.....	$1\frac{5}{12}\%$	" "
19 months	.....	$1\frac{15}{38}\%$	" "
20 months	.....	$1\frac{3}{8}\%$	" "
21 months	.....	$1\frac{15}{42}\%$	" "
22 months	.....	$1\frac{15}{44}\%$	" "
23 months	.....	$1\frac{15}{46}\%$	" "
24 months	.....	$1\frac{5}{16}\%$	" "

Each time a borrower makes a payment, the cashier has to calculate charges on the outstanding balance for the number of days elapsed since the last payment—credit such charges to Loan Cost account and the balance of the payment to principal. Very heavy penalties are provided for over-charging. The Company may be wound up and dissolved. If an individual, he is liable to be imprisoned for a term not exceeding one year, and to a penalty not exceeding \$1,000. If a Corporation, it may be fined as much as \$5,000. In order to avoid errors, these calculations must be carefully made and checked by a second party.

With rates such as are proposed—a different rate for each maturity longer than 15 months—each cashier would have to be equipped with ten sets of very costly interest tables, covering amounts from \$1.00 to \$500 for periods of from one day to 366 days.

Just think of the opportunity for errors, the confusion and expense involved!

Over 100,000 such entries go through our books each month. How would you gentlemen like to calculate interest on \$196.26 for, say, 72 days at a monthly rate of $1\frac{15}{42}\%$ per month? Would our customers understand such ridiculous rates?

What reason is there for them? Customers don't expect or ask for lower rates on longer maturities. The Dominion Government pays a higher rate on long term Bonds than on short term Bonds.

The budgets of many borrowers require longer terms if a proper remedial job of financing is to be accomplished. Unlike the real estate mortgage lender, the Small Loan Company cannot exact a penalty or bonus for prepayment. It is obliged to accept payment at any time before maturity without notice or bonus. So, irrespective of the maturity date, the borrower has the right, which he frequently exercises, of prepaying his loan.

One man borrows \$200 for 15 months and pays in full by the end of the sixth month. His rate will be $1\frac{1}{2}\%$ per month. Another borrows the same amount of money for 16 months but also pays off at the end of the sixth month. His loan will have cost him $1\frac{15}{32}\%$ per month.

It may be argued that handling costs drop as period extends. True there is some saving in acquisition costs, but this is offset by added risk, increased supervision, renewal of Chattel Mortgages, which expire in 12 months without renewal, and, of course, the continuing expense of having to make collections over a longer period.

Whatever the maximum contract rate may be, it should be the same for loans of all maturities. The Government should do everything possible to obviate unnecessary and needless expense in the operations of this business.

Provision for a reduction of the rate to 12% per annum, if default continues after the due date of the final instalment payment, is another iniquitous feature. Why should a borrower receive a premium for defaulting? Taxing authorities, public utilities and others make a practice of charging substantial penalties for default. What justification can there be for a provision of this sort?

I repeat the maximum rate should apply throughout, irrespective of the amount loaned, the maturity period and whether or not payment is completed before or after maturity.

I further repeat that the reduced rate provided for in this Amendment is not the rate charged by Household Finance since January 15, 1945, but something very substantially lower.

LICENSEES HAVE VOLUNTARILY REDUCED THEIR RATES BELOW LEGAL MAXIMUM

It is significant that those licensees which have expanded their Loan Account substantially are the ones who have voluntarily reduced their rates. In other words, it is very evident that these larger operators have co-operated well in living up to the spirit of the Small Loans Act, have recognized the two per cent monthly rate to be a maximum rate and have tried to be fair with the public by reducing their rates where possible. One must bear in mind that any such rate reduction was not made with a view to diminishing net earnings but was designed to do two things: (a) to improve public acceptance of the business, (b) to increase volume and thereby maintain or improve net earnings.

It was a voluntary move in no way inspired by the Superintendent of Insurance or any governmental authority. It was not conceived as a matter of philanthropy but certainly on the part of our company who instigated the cut, it was decided upon as a matter of just good business practice.

To make low rates possible, a larger volume of business under most efficient operating conditions is necessary. It must be remembered that many of the fifty Money Lender licensees are not in a financial position to increase their volume materially if they wanted to, and the effect of a rate cut on such operators can only be a depletion of net earnings.

It must be remembered that our parent company has been in the Small Loan business exclusively for some sixty-eight years. During such period it has become, so far as I know, the largest company of its type in the world. Today it has a volume of approximately \$93,000,000 in small loans. It is natural that during this long period a vast fund of experience has been acquired and much of the efficiency of the Canadian subsidiary plus its financial strength is attributable to its association with its American parent.

Today approximately fifty per cent of the Small Loan business in Canada is done by the company I represent, Household Finance Corporation. Contrary to the opinion sometimes expressed, we do not seek a monopoly in this business. We are, however, pledged to provide the widest possible loan service at the lowest rates consistent with a reasonable profit. To us, it seems grossly unfair that our experimental rate of one and one-half per cent per month, offered to the public in good faith in a time of abnormally perfect operating conditions and made possible because of our efficiency, years of experience and financial strength, should after but a few months' trial become the maximum rate for the industry.

I suggest that the competitive system is working in the best public interest and is doing what the Small Loans Act envisaged. The loan shark has virtually disappeared or at least has crawled into his hole for a while. Occasionally one of his ilk pops up his head and is reported to the Superintendent of Insurance who arranges investigation.

One thing is sure, that borrowing and lending are as old as history itself and that the demand for money like a demand for anything else will always be met, if not through legal channels, through illegal channels. Deprive the legitimate lender of an opportunity for profit and you invite the loan shark back to his former haunts.

At first blush, it will appear to many that the public at large are likely to benefit from a reduction of rates such as Bill 140 proposes, but a study of the problem and consideration of the facts and history of lending generally will, I am sure, convince you that legislation which might quite possibly disrupt a legitimate decent business and put us back to where we were in this country seven years ago with the loan shark running rampant, is definitely not in the public interest.

ADVERTISING

Mr. Finlayson has said that the competitive system is a good system but that it is liable to prove expensive and cites advertising costs as an illustration. Surely he cannot be unmindful of the fact that we, the largest operators in our field, developed our business through spending more dollars on advertising than any of our competitors and that such advertising, coupled with the fact that we had the money to lend and expanded into new territory in order to increase our business, produced the volume of Loan Account we have today and made it possible for us to voluntarily reduce our rates.

Why he relates advertising expenditures to gross revenue or to similar expenditures made by trust and mortgage companies dealing in real estate mortgage loans, I am at a loss to understand. The procedure is unfair and the results misleading.

I shall first deal with the question of relating advertising expenses to gross revenue. I maintain that the only proper yardstick in this connection is to do what any other selling organization would do, relate its advertising appropriation to sales. For instance, if the lender reduces his rate as we have done from 2 per cent to $1\frac{1}{2}$ per cent per month, his gross revenue is decreased by 25 per cent and in consequence his advertising disbursements represent a higher percentage of gross revenue than when the 2 per cent rate was being charged. As rates go down, gross revenue must be replaced by making more loans and to such an end advertising must play a tremendously important part. Candidly, gentlemen, I am wondering if it has become government policy to encourage borrowing on the part of the wage-earning public by reducing rates and inspiring increased advertising.

Now as to the question of comparing our advertising costs with those of mortgage loan companies, I can see no basis whatever for any such comparison. The two businesses are entirely different. The mortgage loan company lends money in much larger units to fewer people and has as security something real and tangible. In addition to its loan rates, it does what the small loan licensee cannot do. It passes on to the borrower additional charges by way of legal expense, court costs, surveyors' fees, commissions to mortgage loan brokers, etc. Surely commissions paid to brokers and agents are just as much an acquisition expense as, say newspaper advertising. The need of a mortgage loan borrower occurs at very long intervals compared with that of small sum borrowers for urgent necessitous purposes. The latter must know immediately his need arises, where to go for a loan.

The advertising dollar is not all used to sell loans. In our own particular case, a substantial portion of it is used for institutional advertising. In this connection we have a profit motive just as if we were trying to sell loans but we have deemed it our duty as a small loans licensee to not only provide a loan service, but to help people get on their feet financially. We publish a number of authentic and valuable booklets on "Better Buymanship" and "Money Management" predicated to the idea of helping people to plan and manage their incomes so they won't have to borrow. These booklets contain no advertising whatsoever and are made available to the public throughout Canada. They are used as texts in practically every home economics course in the country. We recognize that the well-managed family is our best customer and believe that in these booklets, based on authentic research, we have something valuable and constructive to offer. I repeat that we are not being philanthropic in this for we know that much goodwill and better public relations have resulted through their use. The existence and availability of such booklets must be advertised extensively if the public is going to know about them and use them. These items form quite a substantial part of our advertising disbursements.

In connection with advertising, I wish to quote from the evidence given by the late Mr. Bunce and Mr. Leon Henderson before this committee in 1938.

Mr. Henderson: p. 105

By Mr. Baker:

Q. Should we have legislation against advertising?—A. I think not.

I would trust again to the fellow who lives with it day in and day out.

Mr. Bunce: p. 207

As long as you have brought up advertising, I would like to say that we consider that that is not only a legitimate item of expense and one that should be covered by this interest charge, but it is desirable. We have already developed and agreed that the larger volume of business tends to efficiency, tends to better profit and leads to lower costs to the borrower . . . That man needs to be told that you as a parliament have created for his use a lending agency, that you are going to supervise, and you are going to regulate the maximum amount of interest that he may be required to pay. He needs to know about it, and the only method to reach him is through advertising that your company will present. Now, that man is not a business man. He is not studying the law of the land that will apply to him in the stress of an emergency. He needs to have this facility pointed out to him the very day when that need becomes pressing. If this law is going to function, these companies must be permitted a reasonable allocation for advertising purposes.

I want to emphasize, gentlemen, that a company that advertises extensively has a reputation to maintain. If it doesn't back up its advertised word with high-class reputable service and fair treatment, it is only wasting its money. I further want to be most emphatic in saying that every dollar of expense appearing on our statement, and I am sure this holds good for other licensees, has been spent with a profit motive and that, in spite of what anyone may think, money spent on advertising, providing it is good advertising and providing the advertising is lived up to, is not a burden on the borrowing public but, as has been demonstrated in our case, makes lower rates possible.

I have gone to some length in discussing advertising because I know pretty well how Mr. Finlayson feels about it for all through the years he has not seemed prepared to recognize it as a productive investment. I fully appreciate the desire of this committee in wanting to know all it can about this business including advertising and other operating expenses. Some of us dislike advertising. Some think it is overdone. The fact remains it is part of our competitive

system but altogether aside from whether we like it or whether we do not, I question very much that the control of advertising is within the scope of the Federal authority. The Small Loans Act was intended to be an interest measure, not a regulation of business. It is often argued and perhaps quite properly that to the extent that the Small Loans Act regulates business rather than merely regulating interest, it is *ultra vires* of this parliament.

DO EARNINGS JUSTIFY A RATE CUT?

Mr. Finlayson has intimated that an examination of his latest annual reports on small loans companies and money lenders will reveal a very large margin of revenue over expenditure. I agree that if one thinks in terms of dollars only, his statement is correct but such dollars of earnings must be related to the dollars employed in the business. I maintain that any relation of expenditures to gross revenue is entirely erroneous. In the case of some licensees, the small loan business represents their entire business. Others are engaged in other ventures. Some own real estate, others rent their offices. Some show as assets securities not necessarily useful in their small loan business. I would like very much to see Mr. Finlayson produce a table showing rates of expenditures, gross income and net earnings before paying interest on borrowed money, based on assets used and useful in the business.

Many American state supervisors recognize an arbitrary figure of 115 per cent of average loan account as being fairly representative of assets used and useful. In this connection, I draw your attention to the fact that the gross income is earned not only on the actual dollars loaned but that such loan account requires the support of cash in the bank, office furniture and fixtures, etc., and the extra 15 per cent over the actual investment in loan account should as a general rule prove equitable. A table of this sort would provide a fair comparison of lenders' operations which cannot be had in any other way. I repeat that this statement should show earnings before interest, for one lender may use interest-free money, while another may show bank interest as an expense.

But even without such a table, the net earnings of licensees considered either in this regard or collectively are, to say the least, meagre. It is apparent that in the eighteen years since I started the first Small Loans Company in Canada, there has been a comparatively small amount of Canadian capital seek employment in the Small Loan field. I would also point out that Industrial Acceptance Corporation, who, until a few months ago owned Campbell Finance Corporation, sold that Company to an American institution in order to be better able to expand its own business of financing installment sales. So, today we have only a very small percentage of Canadian capital in this business. The rest has all been derived from across the border.

Honourable Gentlemen, I wish to remind you that employable capital is pretty much like employable labour. You can't *make* either work. You can offer inducements and that is all. You can't make a working man take a job at a given place at a given rate of pay unless he cares to do so. Neither can you make a lender lend his money. I assure you he will not do so if he is deprived of an opportunity for what *he* considers a fair profit.

Household cut its rate on January 15th, 1945 from 2 per cent to 1½ per cent monthly. This reduced rate was applicable to all loans put on its books from that date. All loans on its books as at January 14, 1945 continued to earn 2 per cent per month until liquidated. It necessarily follows that our earnings of 1945 do not result from a 1½ per cent rate but from an average rate of 1.65 per cent. Furthermore, I feel that Mr. Finlayson in his report should have pointed out that our 1945 net earnings were inflated by the inclusion of Income and Excess Profits Tax Recoveries and Economies amounting to \$336,000.

We hope to be able to continue to operate at $1\frac{1}{2}$ per cent per month. Personally, I hope the day will come when we will feel warranted in again reducing our rates. But so far, the matter is purely experimental. Operating costs are rising very rapidly. We do not know when the next depression is to come or how badly we will be hit by it. Personally, I believe that the volume of small loans in Canada is still in the making. However, we have no idea how severe competition may be in the future or to what extent we will be able to grow and expand our service. Such expense matters as salaries, rents, advertising, stationery and printing are beyond the control of those engaged in this business or any other business.

In 1945 our company alone made 152,571 loans amounting to \$23,737,376. Forty thousand, one hundred and nine of these loans were made for amounts of less than \$100 and averaged less than \$60. With the exception, perhaps, of interest on borrowed money which, in our particular case represented less than six per cent. of our total expenditures, all other expenses are directly related to the number of loans on our books and not the dollars loaned.

It therefore follows that, relating our expenses to the number of loans made during the year, our expenses per each of these 40,109 accounts amounted to \$9.09. The gross income at a rate of one and one-half per cent. on a \$60 loan for twelve months would be \$6.60 and on each of these 40,109 accounts, we actually lost \$2.49.

We hope that the time will never come when our net earnings will be so reduced as will compel us to stop making these unprofitable loans for amounts of say \$100 and less, for it is borrowers of such small amounts that need the protection of this legislation most. But I ask you, honourable gentlemen, if you were running a sales organization and found yourselves with inadequate net earnings and discovered that you had a line of goods selling at \$60 apiece and that you lost \$2.49 every time you sold one of these articles, what would you do about it? I think the answer is very obvious.

As I previously pointed out, expenses are rising rapidly and unquestionably the margin of loss on these small accounts will increase during the next few years. Remember, these are the loans nobody will want, and these necessitous borrowers will form the market for the loan shark who will endeavour to handle this business at perhaps a rate of 5 per cent per week, as he did formerly.

GENERAL

During the year of 1938, Mr. Finlayson stated that he had never received a complaint against any Small Loans licensee from any borrower for any reason whatsoever. To the best of my knowledge, he has received no complaints from any of the hundreds of thousands of borrowers from some fifty-three licensees having to do with the rates charged by them being excessive. If I am incorrect, I would ask Mr. Finlayson to so correct me now.

The Superintendent of Insurance suggests that the time has come for the reduction of the maximum rate in the Small Loans Law and bases his opinion on the figures he has submitted in the galley proof of his Annual Report on 1945 operations. An analysis of these figures by a reputable Chartered Accountant has been introduced as evidence before this Committee and in my opinion speaks for itself. This analysis clearly reveals that the proposed rate reduction will result in entirely inadequate net earnings to many operators now providing a legitimate service.

Mr. Finlayson bases his case for rate reduction on an impractical and fallacious theory that a reduction in gross income will be accompanied by a proportionate reduction in operating expenses. He has told the Committee about the rigid advertising restrictions provided for in the British Money Lenders Act but he failed to point out that British Money Lenders charge a minimum of 4

per cent per month and that cases are on record of rates of over 200 per cent per annum being recognized by British Courts as not having violated the said Act. Isn't it better to advertise openly than to employ touts (to solicit business) as British lenders frequently do?

Mr. Finlayson in his testimony of July 30 refers to "Seductive Advertising" and in quoting from a circular may have inspired the thought in the minds of some that such advertising copy is representative.

Along with other Association directors, I have watched the industry's advertising very closely and never before have I heard of this particular advertisement. I fully agree that such copy is terrible and should be discouraged. I assure you had it been drawn to the attention of the Association, it would have been properly dealt with.

Lest there be any misgivings, I invite the closest scrutiny of advertising copy being used in this business. It will stand up well with that of any other business.

It is for the Honourable Members of this Committee to seriously consider whether public interest is being best served by putting the members of this industry in an economic straitjacket, driving many of them out of business, taking away from others the incentive to provide legitimate service and thereby openly inspiring the return of loan shark days; or, whether it is best to lend encouragement to an industry such as this that has won public approval, whose co-operation to make the Small Loans Law work has rid this country of illegal, unscrupulous lenders, by saying "Let's not tamper with something that has been tried and found good".

Let me close with asking you a question, Honourable Gentlemen: Who among you would wish to invest your savings in an industry if you had reason to believe that it was Government policy to freeze its net earnings at a rate of return approximating or lower than could be obtained from Dominion of Canada bonds, or other comparable securities?

Tampering with the Small Loans Law every few years such as this Bill suggests certainly does not make the Small Loans field attractive to investment capital. There is no reason whatsoever why this particular industry should be singled out for persecution.

APPENDIX C

REPRESENTATIONS BY TORONTO BOARD OF TRADE

Toronto, July 29, 1946.

HUGHES CLEAVER, Esq., M.P.,
Chairman,

House of Commons Banking and Commerce Committee,
Ottawa, Ont.

DEAR SIR: The Board of Trade of the City of Toronto has studied House of Commons Bill No. 140 amending The Small Loans Act, 1939.

It is generally recognized that The Small Loans Act has operated satisfactorily to date. The system of licensing small lenders provided for by the Act, and the co-operation of lenders licensed under the Act, have succeeded, for all practical purposes, in eliminating the abuses of "loan sharks" prevalent before the Act was passed. As a result, a small loan service, which has met general public need and favour, and without any known complaint of the character of the service or rates charged, has been provided on an efficient basis.

There is, however, concern among firms engaged in the small loan business, several of whom are members of this Board, over the proposal in Bill 140 to reduce the maximum monthly charge from 2% to 1½%. If this reduction is put into effect the gross earnings of small loan operators will be reduced by upwards of 25%, according to rates presently operated on, at a time when these firms are experiencing, in common with all business, increasing costs and the probability from time to time of less favourable general business conditions in which to operate. Since the Act was passed in 1939, the small loan firms have operated under the most favourable conditions of employment and stable earnings. Generally speaking, they have not exhibited an ability to continue the same service to the public under adverse economic conditions which are bound to arise in due course. Nothing, therefore, should be done which will weaken the ability of these companies to provide a necessary public service under all conditions, subject, of course, to ethical and reasonable competition and the supervision now provided by the Act to ensure reasonable rates. The interest cost of loan capital, as shown by governmental reports, is so small a portion of their operating costs that any savings they may make in this regard would appear likely to be far more than offset by increases in costs related to such factors as salaries, wages, rent and the obtaining and servicing of business.

From information supplied by small loan operators, it would appear that, apart from a very few operators who may be able to carry on because of volume and special facilities for obtaining loan capital, a substantial majority of the approximately fifty smaller operators would operate at a loss if the maximum monthly charge is reduced to 1½%. Under such conditions many of these operators will have no alternative but to withdraw from the small loan field. This will result in the small loan business becoming more or less monopolistic and may well create an opportunity for a recurrence of the "loan shark" abuse. Either of these results is most undesirable and the public will lose a number of the loan services now available to it.

The data of several of the smaller operators which have been placed before this Board indicates that an adequate investigation of the effect of the proposed rate reduction on the smaller firms apparently was not made before Bill No. 140 was introduced. It is urged that, before a decision is reached with respect

to any change in the existing maximum monthly charge, a careful investigation be made of the effect of a reduction on the operations of a representative cross-section of the smaller loan firms to avoid any possibility of eliminating loaning facilities which may be necessary or desirable to meet public need and convenience.

With regard to the general advisability of lowering the maximum rate of the monthly charge, it is noted that one of the largest operators has already reduced its rate to $1\frac{1}{2}\%$ per month. It is understood that there are several other plans in operation by Toronto firms at rates varying from $1\frac{1}{2}\%$ to 2% per month. The fact that one or more operators are able, because of volume and special facilities for obtaining capital, to operate on a lower charge than the present ceiling, should not, in itself, be taken as sufficient reason to require other smaller and less fortunate operators to do business on the same rates. It is evident from the operation of companies licensed under the Act that competition has provided a more favourable rate than the present ceiling, on the part of those companies whose conditions of operation permitted, from which the public are benefiting. It is to be anticipated, therefore, that, in line with general business practice, competition for the same service will ensure the lowest economical rate, provided sufficient companies are enabled to operate to develop healthy competition. The present situation and outlook, however, would seem to require retention of the present 2% ceiling rate to permit of licensees providing the varied types of lending service required by the public.

Commending these views to your favourable consideration, we remain

Yours very truly,

(Signed) F. D. TOLCHARD,
General Manager.

