



## Parliamentary Briefing Note

Prepared by *Option consommateurs* for the Canadian Consumer Initiative

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# Credit Cards and Consumer Protection: A small step in the right direction

## The Issue

In 2010, the federal government announced measures aimed at improving consumer protection, particularly with regard to credit cards.

The measures, some of which are outlined below, do in fact increase consumer protection. With today's record levels of household debt (150.8% in June 2011)<sup>1</sup>, these measures are sorely needed.

Banks must now abide by the following rules:

- provide a 21-day grace period (which prevents them from using the M2 method of calculating interest, which is disadvantageous for consumers<sup>2</sup>);
- consider that a payment due on a Saturday, Sunday or holiday is on time if it is made the next business day;
- ensure that the declaration on the cost of borrowing is provided in one piece of text and includes a summary box containing a list of information considered to be essential – this box must be printed in an easy-to-read font with titles and numbers in 12 point bold and the rest in 10 point type;
- use plain language when communicating with consumers;
- include a notice in the consumer's account statement specifying how long it will take to repay their debt if they makes only the minimum payment by each due date; and
- comply with certain specific rules regarding recovery.

Regrettably, however, some of the adopted changes will result in little actual benefit to consumers. For example, the new measures give banks a period of 30 days during which they must inform consumers that a contract has been amended unilaterally. It would be better to prohibit the unilateral amending of contracts altogether, or at least to permit it only under very strict conditions (this, incidentally, is provided by section 11.2 of the Quebec Consumer Protection Act). More generally, inspiration could also be taken from section 42 of Ontario Regulation 17/05, which regulates the unilateral amendment of some types of agreements.

1. Source: *Investment Executive*, September 2011, <http://www.finance-investissement.com/nouvelles/economie-marches/moody-s-s-inquiete-de-l-endettement-des-menages-canadiens/a/37181>. (accessed October 28, 2011).

2. With the M2 method, credit charges are imposed on the consumer before the expiry of the 21-day period after the statement is mailed.

**THE CANADIAN CONSUMER INITIATIVE** is a coalition of four major Canadian consumer organizations: Consumers Council of Canada, Option consommateurs, Public Interest Advocacy Centre and Union des consommateurs.

**L'INITIATIVE CANADIENNE DES CONSOMMATEURS** est une coalition formée des plus importantes associations de consommateurs au Canada, soit le Conseil des consommateurs, le Centre pour la défense de l'intérêt public, Option consommateurs et l'Union des consommateurs.

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## **Canadian Consumer Initiative—Credit Cards and Consumer Protection: A small step in the right direction**

Another change concerns interest: when the interest on one portion of the balance due is lower than that which applies to the other portion, payment must now be applied either to the balance with the highest rate, or to both the high and the low balance, in equal proportions. It would be preferable to require that all payments be applied to the portion of the balance with the higher interest rate.

Finally, the new federal provisions prohibit increasing a consumer's credit limit without the express consent of the credit card holder. The provisions also prevent the credit card issuer from charging over-the-limit fees if the excess is the result of the credit card funds being frozen (this can happen in the case of a car rental or a gasoline purchase, for example). It would have been better simply to ban over-the-limit fees altogether.

### **Recommendations**

1. We recommend that the federal government launch a new round of federal–provincial/territorial negotiations aimed at reviewing the Agreement for the Harmonization of Cost of Credit Disclosure Laws in Canada, which was concluded in 1998, in order to adapt to changing practices and enhance consumer protection. During this process, which could be conducted by the Consumer Measures Committee, it will be important to reiterate the principle of best protection offered by the various provinces and territories, to respect provincial jurisdiction, and to hold consultations with consumers associations.
2. We recommend that the federal government initiate a reform of interest rate regulations. Consumer associations should be actively involved in this reform, which would probably entail review of the Interest Act.
3. We recommend that the federal government adopt measures to make lenders responsible for the credit they offer to their clients. We recommend that, in doing so, they carefully consider proposed sections 103.4 and 103.5, which have been suggested as additions to Quebec's Consumer Protection Act in Bill 24 (currently under review), and the laws of other provinces that are more beneficial to consumers. We recommend that our proposal to oblige the lender to perform an assessment of the borrower's borrowing capacity be carried out, with due respect for the privacy of the consumer.

### **For further information:**

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