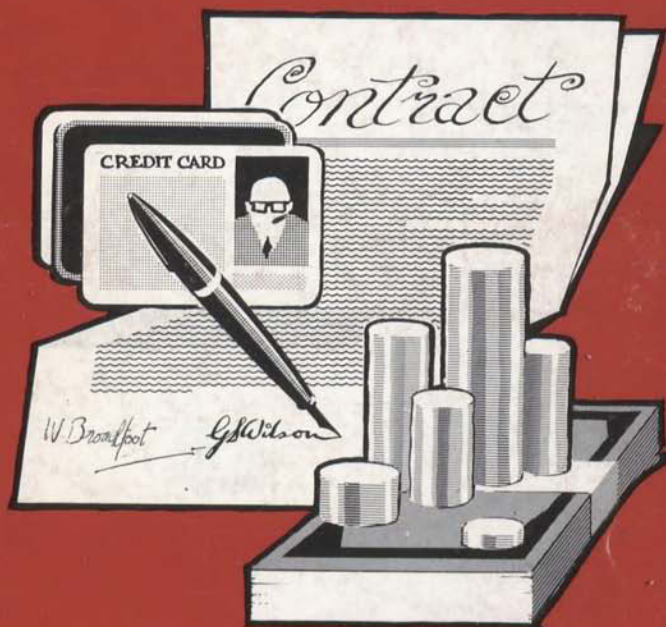


CONSUMER'S HANDBOOK



CONSUMER CREDIT

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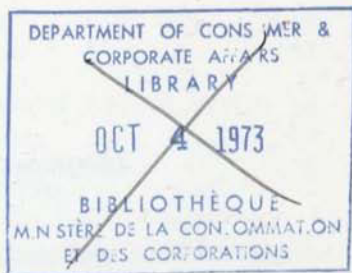
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Consumer's Handbook

CONSUMER CREDIT



Department of consumer and corporate affairs



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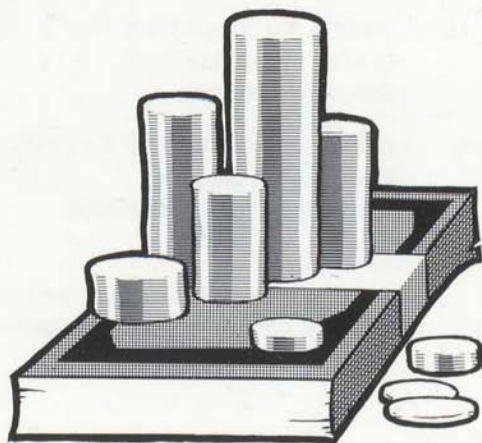
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INTRODUCTION

We are all consumers of goods and services, and hardly any of us has not at one time or another used credit to obtain them.

The use of credit enables us to obtain and enjoy goods and services now, while spreading payment over a period of time.

The majority of people use credit wisely. But there are those who pile up debt and trouble for themselves in the enticing world of easy credit. This booklet is designed to give Canadian consumers a better understanding of the mechanics and kinds of credit available, and some of the pitfalls that may be encountered.



Chapter I

CONSUMER CREDIT

Consumer credit is credit advanced to individuals to finance expenditures for personal goods and services. This excludes credit extended for business purposes.

Basically there are two kinds of consumer credit: (1) cash loans, and (2) sales or purchase credit—transactions relating to the sale of goods or services on some kind of time payment plan.

CASH LOANS

Cash loans are usually made to purchase new goods, but may be used to consolidate and pay existing debts. Cash loans include instalment loans and single payment loans granted on the basis of signature and character, or by using household furniture, automobiles or other personal property as collateral. Some sources of cash loans are:

BANKS

Banks will usually extend credit for any acceptable purpose provided the borrower can demonstrate his ability to repay.

Several chartered banks have also introduced revolving credit loan schemes whereby the customer can borrow on the same basis as he does when making purchases on credit at a department store.

CREDIT UNIONS

Some credit unions are organized on a geographical basis while others are organized on a vocational or occupational basis. Loan services are restricted to members. It is

also possible for credit unions to have a surplus in a given year after fulfilling their commitments to depositors. In such a case they may employ this surplus to reduce the cost of loans to members in that year.

SMALL LOAN COMPANIES

These are sometimes called consumer finance companies. Their business is to make personal loans. While the whole cost of borrowing up to \$1,500 is regulated, including pure interest and all other expenses, their rates are usually higher than those of banks or credit unions.

LIFE INSURANCE COMPANIES

Personal loans may be obtained on the cash surrender value of a policy with a life insurance company. This type of loan reduces the amount of the policy's face value by the balance owed until the loan is repaid.

SALES OR PURCHASE CREDIT

This type of credit is used for the purchase of goods or services which the consumer finds it more convenient to pay for over a period of time. This form of credit may be broken down into the following major types of accounts:

CHARGE ACCOUNTS

Under this form of credit, transactions are usually small. Usually payment in full is required when the bill is presented or within some specified period, often 30 days. The advantage of this type of account is convenience. Although most sellers add service charges if payment is late, charges are not usually made for using the account.

INSTALMENT PURCHASE ACCOUNTS

Ordinarily, under this type of account the consumer enters into a Conditional Sales Contract, makes a down payment and agrees to pay the balance plus finance charges in equal amounts over a period of time. Once the agreement is signed, the signer must fulfill all its terms and provisions, and is subject to all penalties set out in the contract for any breach

of its terms. Ownership of the item purchased usually remains with the seller until the account is paid in full.

REVOLVING PURCHASE ACCOUNTS

This form of credit began with department stores but has now been adopted by other types of retailers as well. The consumer may make any number of purchases up to a specified total value, and promises to repay a specified amount in a specified time after the account is submitted, or by instalments over an agreed period. The consumer should also be aware that carrying charges are levied on the previous month's ending balance. For example, an account payable on May 1 would have charges levied on the total balance as at the end of April.

MISCELLANEOUS CREDIT CARD SCHEMES

Various oil companies, transportation companies and firms such as American Express and Diner's Club issue credit cards which may be used to purchase a variety of goods and services. These schemes basically involve a loan to the consumer.



Chapter II

BUYING ON CREDIT

While the opportunity to use credit to advance personal and family standards of living is an advantage to Canadian consumers, it carries with it many responsibilities and certain disadvantages.

ADVANTAGES

The consumer obtains *immediate use* of the goods or services needed. He enjoys certain *conveniences* since it is obviously easier to spread payments over a period of time.

But in spite of the advantages, consumer credit must be used wisely.

PITFALLS

Perhaps the most dangerous pitfall in consumer credit is the mistaken belief that credit is an increase in total income. If this is compounded by a desire to "keep up with the Joneses", income may be over-committed to credit payments. In such a case any unexpected reduction of income caused, for example, by a period of illness, could be disastrous. The resulting tensions could contribute to family breakdown and even mental illness.

In 1964 a Joint Committee of the Senate and House of Commons was formed to examine consumer credit. It found that many problem areas involved borrowers of modest means who had made imprudent purchases.

Consumers also frequently overlook the fact that consumer credit is expensive and may increase the price of the goods or services by anything from *ten to 30* percent, and even more.

Credit contracts often contain clauses designed to oblige the consumer to make payment in full even though the goods are defective or the seller, in some other way, has failed to live up to his part of the bargain. This happens especially when the contract is assigned to someone other than the seller (usually a finance company). The seller had the buyer sign a promissory note in addition to the credit contract, and then

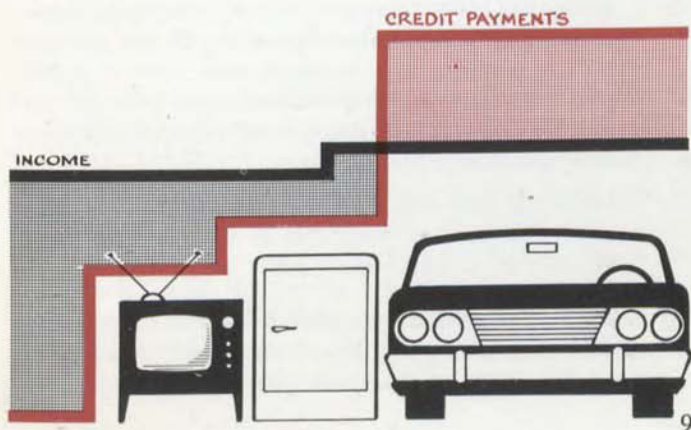
assigned both to a third party. This made certain that the party to whom the note was assigned had the right to collect payment from the buyer without any of the responsibility that the seller may have had in connection with the sale.

The use of such clauses and promissory notes has posed serious problems to many customers. As a result, some changes in the law have been made.

In some provinces, but not all, there are now laws intended to make at least some of these clauses ineffective.

The law respecting promissory notes was changed by Parliament effective November 1, 1970. Now, promissory notes (and cheques post-dated more than 30 days, and other bills of exchange) issued in respect of a consumer purchase and signed by the buyer or someone on his behalf, must be marked "CONSUMER PURCHASE". If a note so marked is assigned to a third party, that party's right to collect the money owing under the note, generally speaking, will be no better than the seller's. So, if for some reason the seller is *not* entitled to the purchase price or part thereof (e.g. because of failure to deliver all or part of the goods) then the party to whom the note was assigned will likewise *not* be entitled to the purchase price or part thereof.

Consolidation of debts and refinancing can be an expensive practice. Although it may provide a certain amount of relief for some Canadians, it can result in high costs and extended duration of payments. Studies have shown that on the average, such borrowers remain on the lender's books for seven years.





Chapter III

CREDIT GUIDES

To help avoid these and other pitfalls, borrowers should shop for credit as carefully as they would for any other purchase. Before buying, consider the following important points:

1. Plan your use of credit wisely—avoid impulse buying simply because credit is easy to secure.
2. Consider the entire transaction before making any commitment. Ask yourself these questions: Is the purchase important enough *now* to justify the cost of credit? Would it be wiser to save and pay cash? Will the purchase give lasting satisfaction, and advance the long-range goals of the family?
3. Be sure you know the cost of credit and any additional charges that may be made. These could include insurance, delivery or installation costs.
4. Compare alternate credit plans. Finance charges vary widely depending upon the credit rating of the applicant, the nature of the goods, the term over which the

credit is to be repaid, and the security to be provided. It may often be cheaper to borrow elsewhere and pay cash to the retailer.

5. Use only the amount of credit needed. Remember to allow some leeway for unforeseen emergencies.
6. Keep the payment period as short as possible. Make payments promptly to avoid additional charges. Advise your creditor if your payment will be late.
7. Make the largest down payment possible in order to keep the balance requiring financing at a minimum. Take advantage of rebate privileges generally provided by provincial laws. Considerable savings in credit costs may be achieved by paying off early. Most provincial legislation provides that if a loan is repaid earlier than the contract requires, the customer is entitled to a proportionate refund of the cost of borrowing. This refund is referred to as a "rebate".
8. Read and understand the terms of your credit contract before signing. *Never sign a blank agreement form*, and always obtain a copy of the agreement before taking delivery of the merchandise or accepting the money on a loan. If a substantial sum of money is involved consult a lawyer.
9. If verbal warranties or other representations are made to you, make sure they appear in the agreement. They may not otherwise be binding on the seller.
10. Do not sign a promissory note (or cheque post-dated more than 30 days) unless it is marked "CONSUMER PURCHASE". This means that if the note is assigned to a third person, that person will have no more right to collect payment from you than the seller would if he does not keep his part of the bargain. Make sure you are satisfied with the goods *before* signing anything. For example, if you are having work done in your home, do not sign a so-called "completion certificate" unless the work has in fact been completed to your satisfaction.

CONTRACTUAL INFORMATION

When buying on credit, it is extremely important for the consumer to know exactly the terms of the contract. Many provinces have legislation requiring that contracts disclose certain information to the consumer. The wise credit buyer will make himself aware of such disclosure requirements and ensure they are fulfilled before signing any agreement. Most disclosure legislation requires the following information to be clearly stated in the credit agreement:

1. A clear description of the goods being purchased, or in a loan agreement the security pledged for the loan.
2. The actual cash price of the goods, with separate notation of any installation or delivery charges, or, in the case of a loan, the principal amount of the loan.
3. The amount of the down payment or value of the trade-in, if any.
4. The difference between the cash price of the goods and the down payment plus the trade-in value.
5. The amount of any charges for insurance premiums or official fees for filing of lien agreements required under provincial legislation.
6. The total amount of credit finance charges on the balance to be paid expressed in both dollars and cents and as an annual percentage rate.
7. The total amount of the debt to be paid.
8. The amount, due date and frequency of instalment payments.
9. The basis on which additional charges can be made in event of default in payments.

Specimen Disclosure Statement

STATEMENT OF DISCLOSURE

Re: Loan No.

Amount of Cash Received by or

Disbursed on Behalf of Borrower \$.....

Life Insurance Cost \$.....

Cost of Borrowing (based upon instalments
being made when scheduled) \$.....

Cost of Borrowing Expressed as
an Annual Percentage %

Interest shall accrue from the date of the default in the payment of the full amount of any instalment and if such default continues beyond the Final Due Date, interest shall accrue thereafter at a rate not in excess of 12% per annum.

Interest is computed on unpaid principal balances from time to time outstanding for the actual number of elapsed days between dates of payment. Failure to pay an instalment when scheduled will increase the Cost of Borrowing.

Chapter IV

WHEN IN TROUBLE

Unfortunately too many consumers find themselves in severe financial difficulties due to overburdening payments. Whatever the reasons for the difficulties—reduction of income, illness or emergency, or simply unwise use of credit—they can lead to great mental anguish. When a consumer finds himself in this situation, it is in his own interest to try to resolve the problem without delay.

His first step is to sit down with a pencil and paper and take a good look at his whole financial picture. All debts and expenses should be listed honestly, leaving nothing out. They should be shown both as balances and monthly payments required.

The debt picture should then be related to income, and a sincere effort made to decide where economies can be achieved in expenses other than credit payments. At this stage the consumer may find that some of his income not ordinarily used to pay debts can be diverted into additional debt payments. This will often require considerable determination and personal sacrifice.

Once the facts are faced and put in writing, the consumer should discuss his problem with all of his major creditors. Generally, reputable credit concerns are willing to co-operate reasonably with consumers who display a sincere desire to solve their problems and are frank about their situation.

CREDIT COUNSELLING

Some communities have credit counselling agencies which will advise consumers, free of charge, on how to organize their indebtedness. In some cases, these organizations will prepare a repayment plan coupled with a family budget. If the consumer agrees to the plan and is willing to make the

required amount available to the agency out of his income, they will often assume the responsibility of making payments on his behalf.

Most business firms will co-operate with these counselling organizations and make whatever adjustments in payments are required to meet the plan devised for the consumer. This produces a system of orderly payment of debts. If it is followed with sincere effort on the part of the consumer, it results eventually in full payment of his debts without the harassment that might otherwise occur.

Care should be taken, however, not to confuse community credit counselling agencies with commercial debt adjusters who engage in prorating payments for profit. Their advertisements frequently appear among the personal or financial classified ads in newspapers, but they often aggravate problems rather than solve them. Avoid using a credit counselling service that is not within the community or at least the province.

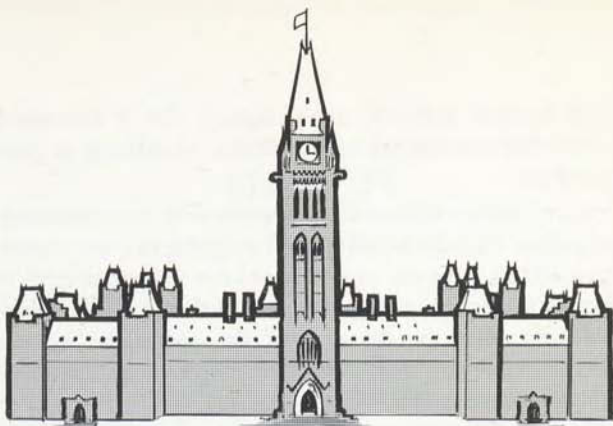
Sources of credit counselling services may be found by consulting a Better Business Bureau, your municipal or provincial government, your local legal aid or law societies, or in some cases your trade union.

STATUTORY ASSISTANCE

The federal Bankruptcy Act contains provisions relating to orderly payment of debts. Recent amendments to the Act provide a simplified procedure for the payment of debts. Under these provisions a debtor may apply to the clerk of the designated Court for an order directing a method of paying his debts. When the order is issued, the creditors involved may take no further proceedings against the debtor as long as the terms of the order are being met.

This part of the Bankruptcy Act comes into effect only in Provinces that have so requested. At present the Provinces of Alberta, Saskatchewan, Manitoba and Prince Edward Island have done so.

In the Province of Quebec, sections 652-659 of the Code of Civil Procedure enables wage earners to obtain a similar form of relief.



Chapter V

CONSUMER CREDIT LEGISLATION

Legislative jurisdiction in the area of consumer credit is divided between the federal and provincial governments. The following federal laws deal with various aspects of the subject:

- **Small Loans Act**—regulates the cost of personal loans of \$1,500 or less including any and all other expenses as well as interest. It provides that the maximum amount to be charged by lenders is two per cent per month on the first \$300, one per cent per month on the next \$700, and one-half of one per cent per month on the next \$500 up to \$1,500. Effective annual rates of interest on four selected loans would be: \$300—24%, \$500—21.7%, \$1,000—17.7%, and \$1,500—15.2%.
- **Bank Act**—requires that the true cost of borrowing be disclosed in bank loans up to \$25,000.
- **Bankruptcy Act**—provides for relief of consumers over-committed to debt payments.
- **Bills of Exchange Act**—deals with the execution and negotiation of promissory notes and the rights of the holders of such notes.

- Criminal Code—prohibits all forms of fraud. (Combines Investigation Act prohibits false advertising.)
- Interest Act—limits the amount of interest that can be recovered on a loan unless the interest is disclosed in the contract in the manner called for by the Act.

PROVINCIAL LEGISLATION

Most provinces now have laws designed specifically to protect the consumer in all or some of the following respects:

- Disclosure legislation—requires that credit grantors disclose in written form the true cost of borrowing in both dollars and cents *and* as a rate per cent per year.
- Prohibition of false or misleading advertising.
- Regulation of itinerant sales—this provides a “cooling-off” period entitling the buyer to rescind agreements made with door-to-door salesmen.
- Rebate privileges—entitles the borrower to a return of a portion of the cost of borrowing if he pays off before the full term of the agreement.
- Restrictions on creditor’s remedies—such restrictions vary widely from province to province. In general they cover such matters as repossession rights of the creditor, limitation on his right to sue for all or part of an unpaid debt, and restrictions on his right to obtain a wage assignment or to attach the earnings of the debtor.
- Sale of goods laws—all provinces have sale of goods legislation which states that the seller is deemed to warrant the quality and fitness of his goods unless he has excluded the warranties. Several provinces also have laws dealing with the sale of motor vehicles.

In addition, many provinces have organized government-operated consumer protection bureaux or have designated a specific agency or department to act as protector of the consumer’s rights.

While it will always be true that the consumer is personally responsible for using his credit wisely and selectively,

the fully informed consumer will ensure that he is aware of the protection his provincial legislation provides as related to credit.

SOURCES OF CREDIT INFORMATION

Included in this booklet as "Appendix I" is a table showing selected existing federal and provincial laws which deal with consumer credit protection, and the proper source of enquiry in the respective jurisdictions.

It is recommended that all consumers make full use of these sources for their further information.

APPENDIX I

Selected Consumer and Credit Legislation and Official Sources of Information

Jurisdiction	Legislation	Official Reference
Government of Canada	Small Loans Act	Department of Insurance, Ottawa
	Bank Act Bills of Exchange Act Interest Act	Department of Finance, Ottawa
	Bankruptcy Act	Department of Consumer and Corporate Affairs, Ottawa
	Criminal Code	Department of Justice, Ottawa
Alberta	Conditional Sales Act Credit and Loan Agreements Act Direct Sales Cancellation Act Exemptions Act Seizure Act Unconscionable Transactions Act	Consumer Affairs Branch, Room C-407, Terrace Bldg., Edmonton 6, Alta.
British Columbia	Attachment of Debts Act Collection Agents Act Conditional Sales Act Consumer Protection Act Credit Unions Act, 1961	Department of the Attorney General, Province of British Columbia, Victoria, B.C.

British Columbia	Insurance Act Investment Contracts Act Meat Inspection Act Meat and Canned Food (B.C.) Act Mortgagor's Relief Act Motor Vehicle Regulations (sale of used cars) Real Estate Act Rent Control Act Sale of Goods Act	
Manitoba	Consumer Protection Act Garnishment Act Unconscionable Transactions Relief Act	Consumers' Bureau, 270 Osborne St. N., Winnipeg 1, Man.
New Brunswick	Consumer Bureau Act Conditional Sales Act Cost of Credit Disclosure Act Direct Sellers Act Garnishee Act Unconscionable Transactions Relief Act	Consumer Bureau, Province of New Brunswick, Box 32, Centennial Bldg., Fredericton, N.B.
Newfoundland	Assignment of Wages Act Attachment of Wages Act Conditional Sales Act Direct Sellers Act	Department of Provincial Affairs, Government of Newfoundland and Labrador, Confederation Bldg., St. John's, Newfoundland

Northwest Territories	Conditional Sales Ordinance Seizures Ordinance	Territorial Secretary, Government of the Northwest Territories Yellowknife, N.W.T.
Nova Scotia	Collecting Agencies Act Consumer Protection Act Consumer Services Act Direct Sellers Act Instalment Payment Contracts Act Mortgage Brokers and Lenders Registration Act Real Estate Brokers Licensing Act Unconscionable Transactions Relief Act	Director, Consumer Services Bureau, P.O. Box 998, Halifax, N.S.
Ontario	Bailiffs Act Cemeteries Act Conditional Sales Act Collection Agencies Act Consumer Protection Act Consumer Protection Bureau Act Credit Unions Act Mortgage Brokers Act Real Estate and Business Brokers Act Unconscionable Transactions Relief Act Upholstered and Stuffed Articles Act Used Car Dealers Act Wages Act	Department of Financial and Commercial Affairs, Consumer Protection Division, 555 Yonge St., Toronto 284, Ontario.

Prince Edward Island	Collecting Agencies Act Conditional Sales Act Consumer Protection Act Direct Sellers Act Sale of Goods Act Unconscionable Transactions Relief Act	Director of Consumer Services, Department of Provincial Secretary, P.O. Box 2000, Charlottetown, P.E.I.
Quebec	Civil Code of the Province of Quebec articles 1561-a et seq. 1040-a - 1040-c Civil Code of Procedures, articles 652-659	Consumer Protection Bureau, 7th Floor, 800 Place d'Youville, Quebec, P.Q.
Saskatchewan	Attachment of Debts Act Collection Agencies Act Conditional Sales Act Cost of Credit Disclosure Act Distress Act Exemptions Act Limitation of Civil Rights Act Mortgage Brokers Act Motor Dealers Act Unconscionable Transactions Relief Act	Department of the Provincial Secretary, Room 304, Legislation Bldg., Regina, Sask.
Yukon Territory	Conditional Sales Ordinance Distress Ordinance	Territorial Secretary, Government of Yukon Territory, Whitehorse, Yukon.

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