

May 8, 2009

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance
L'Esplanade Laurier
East Tower, 21st Floor
140 O'Connor Street
Ottawa, Ontario K1A 0G5

Dear Minister:

I am writing on behalf of the 50 domestic and foreign bank members of the Canadian Bankers Association in response to the Department of Finance consultation document "Supporting Stable Financing – Consultations on Leasing." We appreciate the opportunity to make our views known, and hope that these comments are of use in the government's consideration of the leasing issue.

As you know, the banking industry has long been on record as supporting competition and choice in all financial markets, and opposing measures that limit consumer benefits from competition. As we have said on previous occasions, it is clear that the current restrictions limit the ability of consumers to access a wider range of suppliers of lease financing, and limit entry into the market by new players which would otherwise bring additional competition to the marketplace. Fears that there would be a conflict of interest with auto dealers, whom banks finance and with whom banks might compete as lessors, are unfounded. There are numerous instances where banks have a financing relationship with firms or financial institutions while competing with them in other markets.

The effects on consumers of these restrictions have been evident for years, but they have become more pronounced recently because of disruptions in parts of the financial markets and the serious challenges faced by the automobile industry. Canadian consumers have far less access to leasing today than they did even a few years ago. While leasing accounted for about 40% of new vehicle sales in the middle of this decade, that share has declined to about 15% by the end of 2008, not because of a lack of demand for leasing but because of a lack of availability. By contrast, bank lending to consumers to purchase automobiles has grown by 45% from the beginning of 2004 to the end of 2008. Indeed, bank lending grew by 30% through 2008 alone, precisely at the time when lease financing was becoming less available.

The disruptions in the auto industry and the broader marketplace have also made clear that the restrictions hurt more than Canadian consumers. It is now clear that these restrictions on the supply of financing have hurt businesses across the country (such as auto dealers) that rely on leasing to serve their customers and who have limited leasing options. Next to the purchase of a

home, an automobile is one of the most expensive acquisitions a household will make. Consequently, the sector relies heavily on consumer access to financing to sell their products, but because of statutory restrictions, consumers are restricted in whom they can deal with to get lease financing. In effect, they have generally been limited to non-regulated captive auto financing companies and a few others who have traditionally sourced their funding in the securitization markets. With those markets now disrupted, and with no alternate source of lease financing available, the result has been a significantly diminished ability on the part of businesses to provide their clients with access to the lease financing that their customers want. This has not just a negative impact on consumers who wish to lease automobiles but it also has a negative impact on dealers wishing to sell automobiles. In effect, statutory restrictions on competition and choice have had the effect of weakening the system's ability to respond to disruptions. Because of these statutory restrictions, potential suppliers of financing (such as federally-regulated financial institutions) are unable to fill the gap the way in which consumers prefer. As the figures above indicate, loans are being substituted for leases, not because consumers want to switch but because that is the only way in which banks can fill the gap.

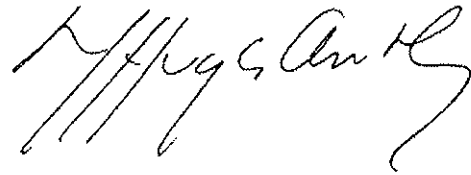
Given the severe disruptions in the ability of existing providers to make lease financing available, it is not surprising that the consultation document emphasizes (and appropriately so) the notion of stability. This is a concept that characterizes Canadian banking. Today, when access to credit is considered to be a key component to economic recovery, Canadian banks are notable as one of the few parts of the financial sector that are stable and sound, and as a result are able to continue lending to businesses and consumers even in a difficult economy. For example, from March 2008 to March 2009, bank provision of credit to business was up by 7.4%, residential mortgage lending was up by 8.6% and non-mortgage consumer credit increased by 13.9%. Indeed, a key characteristic of the Canadian banking system is that banks have been consistent over the years in delivering high quality, low cost services to retail and business customers across a wide range of products and services, without severe disruptions and precipitous withdrawals from the marketplace. This stands in sharp contrast to some other parts of the Canadian financial services marketplace, and stands in sharp contrast to the US banking system where bank lending has been sharply curtailed.

Key factors in the long-term stability and resilience of the banking system are the industry's strong risk management controls and strong capital positions, both of which are overseen by a strong, unified regulator, the Office of the Superintendent of Financial Institutions. Indeed, the evidence is clear that as Canadian banks have entered into new fields and product lines over the years, they have been able to successfully manage the risks associated with such new endeavours. And, of course, Canadian banks already hold a large portfolio of consumer automobile loans and provide substantial lending to automobile dealers, all of which requires them to understand the auto market and associated risks. Similarly, the fact that banks provide a wide range of consumer loans, some secured and some not, suggests that they also have the ability to understand risks associated with leasing of household property.

If the government does decide to ease restrictions on financial institution involvement in vehicle and household property lease financing, it would be up to individual institutions to make their own decision on whether they would enter this marketplace. While not every institution may choose to enter this business, the key is that it should be a competitive business choice rather than a function of legislative restrictions.

Our position is a long-standing one, and we recognize that this is ultimately a policy matter for the government to decide. It is our hope that the comments outlined above are useful as the government considers this issue and if you wish to discuss this matter further, we would be pleased to make ourselves available at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "H. J. ...". The signature is written in a cursive style with a large, sweeping initial letter.