

Mr. LEBOE: You say \$1 million instead of using the figure \$10 million, so you can now increase that amount to the extent that the \$1 million represents \$8 million if you are up to your maximum. Is that right?

Mr. LEWIS: It will be 12½ million. I think this pertains more to a general banking situation.

Mr. LEBOE: This is right.

● (10: 40 a.m.)

Mr. COYNE: Of course, this is a subject which has been discussed. I have discussed it on occasions in the past.

The banking system as a whole can respond to an increase in money by the Bank of Canada by multiplying loans and deposits about 12 times for every dollar that the Bank of Canada puts out. But, an individual bank may not be able to do that at all. In the case of an individual bank, if it gets \$1 million of Bank of Canada funds, all it has is \$1 million; if it uses that amount for lending it is gone, and it does not have any more. That bank will only get additional deposits if other banks, in turn, have been getting money from the Bank of Canada and lending it to people who deposit it not with them but with a first bank. It is only if they re-deposit back and forth between banks that you get this multiplying factor operating. And, in the case of a small bank you may not get anything of that sort at all. This is much more apparent in the United States, where there are a vast number of banks of every conceivable size. But, there is the Royal Bank, the Bank of Commerce and the Bank of Montreal. They know that they are going to get back into progress at least 25 per cent of any loan they make. And, they know that other banks are making loans at the same time and under the same motives, and they are going to get 25 per cent of the deposits that way. Because of the way business is run in this country the large banks know pretty well what proportion of any expansion they are going to get. But, a small bank has not any such assurance.

Mr. LEBOE: You are referring now to the deposit liabilities?

Mr. COYNE: Yes, and the assets that correspond to them.

Mr. LEBOE: But, not the original deposit you have with the Bank of Canada?

Mr. COYNE: No.

Mr. LEBOE: You are referring to the deposit liability.

Mr. COYNE: I am referring to the gross.

Mr. LEBOE: Perhaps this is a question which may be covered when we are studying revisions to the Bank Act. I have not studied the act to that extent but I would like to put this question to you. Do the directors contemplate separate real estate firms or corporations handling their properties?

Mr. COYNE: I do not think there has been any consideration given to that except to say that I do not contemplate that we will have much in the way of property. We are going to be very careful about investing money in premises and things of that sort. We may rent premises for quite a time rather than acquire them by ownership.

Mr. LEBOE: In your previous experience with the Bank of Canada could you tell me if it is possible for a chartered bank to loan money to a real estate corporation which is operated in connection with your home bank?