Federal Business Development Bank

the value of the security pledged in support of the loan. In 1978, only 31 per cent of authorizations met this test. In addition, back in 1973, 56 per cent of the bank's borrowers did not have a proven track record, and, by 1978, the fact was that 65 per cent of the bank's borrowers did not have a proven track record.

Another survey—one which is analysing incorporated business—is under way to compare FBDB customers to all firms in the same industry. It is apparent that the greater risk-taking of the bank produces a clientele which exhibits much less profitability than the average, well established firms, which presumably satisfy their financing requirements internally or from private lenders. In most sectors, the profit margins on sales by FBDB clients are less than half the industry average.

Of course the bank must be convinced that any business proposals for which FBDB is approached for financing must have a reasonable prospect for commercial success. This is not only a requirement of the legislation, but also a moral obligation of the bank to the prospective borrower. I believe that is a very important attitude that the bank has to carry.

Dealing with losses is a matter of course for a lender. However, a loss for the majority of the bank's clients who have already invested virtually all of their savings in their business, is a major calamity. The bank, therefore, would not knowingly finance a proposal that did not have a reasonable prospect for success. This is another reason why the bank tolerates arrears and devotes extensive efforts to save businesses that encounter reversals.

Perhaps a word or two about the allegations of undue competition would be of assistance to my colleagues in the House. Upon taking office I examined this complaint with the president, and from studies given to me I can report that most private financial institutions are growing faster than FBDB, both in terms of lending without any government involvement and loans guaranteed under the federal Small Businesses Loans Act. FBDB provides term financing for new businesses or investment projects of existing businesses which are generally of a higher risk or a smaller size than the private lenders are prepared to accept.

Probably one of the main areas where lending is unprofitable for private financial institutions is in small size loans. These loans provide relatively little revenue compared to the administration costs, and they also carry a high risk of default arising from a failure of the small firm. If we compare FBDB with one of the private institutions which many regard as comparable because of its concentration in term loans, the differences are quite striking. For example, last year FBDB's average loan authorized was for $54,000. RoyNat's average loan was over $280,000. In addition, the industry distribution was quite different. Many bankers observe that manufacturing loans are better secured than those in the trade and service sector. RoyNat has nearly 40 per cent of its lending in manufacturing compared to 22 per cent for FBDB. RoyNat has only 15 per cent of its outstanding funds loaned to firms in wholesale and retail trade, whereas this sector receives 25 per cent of FBDB lending.

From time to time there has been concern that FBDB's interest rates are overly attractive compared to private lenders. I am advised that FBDB's board of directors has always attempted to maintain the bank's rates in the mainstream of long-term interest rates, but its decision last week to increase rates significantly should allay any fears of undue competition on interest rate grounds. The bank is now charging 16 per cent on new loans up to $50,000 and at least 16.5 per cent above $50,000.

It must be borne in mind that almost all of FBDB's borrowers are also customers of chartered banks, credit unions, and other private financial institutions. FBDB's loans and equity investments provide leverage enabling the firm to get additional financing elsewhere and, particularly, in larger deals, FBDB and other lenders enter *pari passu*, sharing the financing requirement and the risk equally.

In some instances, FBDB receives approaches for financing packages which have been turned down by private lenders, but after FBDB's intervention and negotiation of an acceptable project plan and an offer of a loan from FBDB, the private bank may reconsider and make the loan itself. In such cases, the firm and the local economy obtain the benefit, even though these deals do not appear in FBDB's loan statistics. In other words, FBDB can act as a catalyst in getting the job done. An example of this is the Lundigram-Comstock deal.

Last year, the bank only earned $600,000 profit on $2.1 billion of outstanding paper. Its retained earnings are $46 million. The size of loans outstanding, the number of unsecured loans in the total portfolio, the extent of rural coverage and service, the venture and risk nature of loans and guarantees, the non-earning economic services delivered to the Canadian business community at large, all this has been managed by a team that has kept this Crown corporation shallowly in the black.

I proudly say to you all that this country is being well served by the president and personnel of the FBDB. In that regard, of the four major activities I would point out that three are really financed as a term lending function of the bank. The balance of their activities carries a very important social work program to the small and medium-size business enterprise sector of the country.

I urge the House to give full and prompt attention to this bill so that the vital services rendered by the bank will not have to be curtailed. I believe it is important to all of us that this bill pass through all stages well before the end of the year. The official opposition encouraged me to shorten my remarks tonight so that their speakers could get on, as they are as anxious as I am to see that this bill gets through to committee and that we not interfere with the service of this important institution to the small and medium-size enterprise sector of the country.

• (2020)

Some hon. Members: Hear, hear!