

INDIRECT LIABILITIES

53. Bonds and debenture stocks bearing the guarantee of the dominion outstanding in the hands of the public at March 31, 1940, amounted to \$1,084,479,000, a decrease of \$987,000 during the fiscal year.

54. There were also outstanding on March 31, 1940, other contingent liabilities arising out of guarantees given under Relief and Seed Grain legislation and other acts. There were no new guarantees incurred during the last fiscal year.

During the fiscal year under review an amount of \$52,000,000 was advanced without interest to the Canadian Wheat Board to enable the board to pay off guaranteed bank advances with respect to the marketing of the 1938 wheat crop. The guaranteed bank loans to the board outstanding at the close of the fiscal year amounted to \$42,998,000. This amount constituted the board's gross liability to the banks at the close of the fiscal year and mainly related to the purchase of the 1939 wheat crop at the fixed price of 70 cents per bushel No. 1 northern, Fort William. The guarantee of the dominion to the Winnipeg Grain and Produce Clearing Association Limited, referred to in previous budgets, is still outstanding. No liability accrues from day to day in connection with the guarantee as margin deposits are made to the Clearing Association daily.

At March 31, 1940, 102,365 Home Improvement Loans had been made by banks and approved lending institutions to home owners in the amount of \$41,110,000. Repayments to the same date on account of these loans amounted to \$24,068,000, or over 58 per cent of the total amount of loans made. The dominion's contingent liability arising out of these loans is limited to 15 per cent of the aggregate of such loans made by each approved lending institution. As 288 loss claims for \$86,922 have been paid, the maximum contingent liability as at March 31, 1940, was \$6,079,595. In terms of dollar losses to total volume of loans, this loss ratio is only approximately $\frac{1}{3}$ of 1 per cent.

Under the Dominion Housing Act, 1935, and the National Housing Act, 1938, the dominion has accepted and is accepting certain obliga-

tions arising out of its contracts with approved lending institutions which, while not expressed in the form of a guarantee, may nevertheless be regarded as contingent or indirect liabilities.

The manner in which losses in respect of any loan are to be borne by the dominion and the lending institution is fixed by the contract. The general principle is that the dominion bears two-thirds of the loss if at the time the loss is sustained the principal amount of the loan repaid, less any other amounts due, is equal to or less than the amount advanced by the dominion and one-third of the loss if at the time the loss is sustained the principal amount repaid, less any other amounts due, is more than the amount advanced by the dominion. In the case of small loans (that is, for amounts not in excess of \$4,000 in the case of a single dwelling place or not in excess of \$700 per habitable room in the case of a multiple family dwelling), the share of the loss to be borne by the dominion is not more than 80 per cent and not less than 50 per cent of the loss. The above provisions apply to loans made under both the present National Housing Act and its predecessor, the Dominion Housing Act. Under the National Housing Act a new provision has been added to encourage the making of small loans in such small or remote communities and in such districts of other communities as may be designated by the Minister of Finance in any contract. In respect of such loans, the dominion has agreed in contracts with certain lending institutions to pay losses sustained by any such lending institution up to certain amounts determined by the contract which are not less than 7 per cent and do not exceed 25 per cent of the total amount of such loans made in such areas by the lending institution.

Order in Council, dated December 5, 1939, provided that after January 1, 1940, applications would be received only for loans for the construction of houses containing one self-contained dwelling place and where the loan does not exceed \$4,000.

Loans to the number of 15,054 had been approved at March 31, 1940, under the Dominion Housing Act, 1935, and the National Housing Act, 1938, and in the amount of \$52,553,000. No losses had been realized by the dominion as of that date.