Q. Let me develop this a little bit further. Based on the 3 per cent Bank of Canada rate—

Mr. NICHOLSON: It has been raised, has it not?

By Mr. Purdy:

Q. Do you think the banks can make the necessary credit investigations and carry on the work necessary to grant these loans for 1½ per cent?—A. Banks do not borrow all their money from the Bank of Canada. They borrow some from individuals at 2 per cent.

Q. You are advocating that the banks should loan this money at 4½ per cent because they have a government guarantee?—A. Yes.

Q. If that is not a good return, would it not discourage farm credit rather than encourage it?—A. Will you repeat the question, please.

Q. I am saying suppose the banks on the farm improvement loans can only get 4½ per cent, would not that discourage them from granting loans under this legislation rather than encourage them?—A. It would certainly mean that the banks—I suppose if the banks are now lending on mortgages—and they have cut down on housing mortgages by the way.

Q. They have put it up.—A. I understand lately that the banks have decided to curtail lending on city mortgages, and therefore must have some surplus funds.

Getting back to this question of the Bank of Canada rate of 3 per cent, 4½ per cent is a 1½ per cent margin. For a long time in the United States under the old farm loan board they were required to lend on long-term mortgages at not more than 1 per cent above the cost of the money. The Canadian Farm Loan Board operates on 1·37 and makes a profit. They showed $60,000 on their income tax last year; the Canadian Farm Loan Board pays income tax. They also provided for good reserves.

Q. I just want to get it clear whether we would be helping the farmers by reducing the interest. We might, in one way, but we might discourage the loans in that the banks not having the margin to work on would be perhaps less diligent in investigating the loan knowing that they have a guarantee back to them and that would throw back on the government to an extent that we might have to cancel the present legislation.—A. Five per cent is in the act for a number of years. The Bank of Canada rate fluctuates and the rate this year is the highest 20 years and in fact that is not likely to be the long-term Bank of Canada rate. It has been 1 per cent less than that for a long time. I would not say that that present bank rate is a normal long-term rate.

Q. I do not know if it is or not.

By Mr. Quelch:

Q. Mr. Chairman, I presume at the time when the act was first formulated it was considered advisable to make the repayment as short as possible due to the fact that agriculture was in a very prosperous condition, and today the situation has changed considerably and, with the quotas on, wheat farmers are finding greater difficulty in making payments. I would like to ask Dr. Hope what has been his experience regarding the action of the banks in extending the time during which some of the repayments may be made. Have they generally put pressure upon the farmers to try to get them to sell livestock in order to make the payments—livestock which in many cases should not be sold.—A. That is a difficult question to answer. I am not familiar with the Farm Improvement Loans Act all across Canada with respect to each bank, but I do know that banks have been fairly generous in some localities in extending the loans. In our own district I think they have