Federal Business Development Bank

FEDERAL BUSINESS DEVELOPMENT BANK ACT

RENUMBERING OF CERTAIN SECTIONS

Hon. Ron Huntington (Minister of State for Small Businesses and Industry) moved that Bill C-4, to amend the Federal Business Development Bank Act, be read the second time and referred to the Standing Committee on Finance, Trade and Economic Affairs.

He said: Mr. Speaker, as I commence second reading debate on Bill C-4, a bill to amend the Federal Business Development Bank Act, I should like to start with a short summary of the bank's history. In 1974, the Federal Business Development Bank Act was passed by Parliament. It contained a section which provided for a maximum amount of paid-in capital to be provided by the government, $200 million. The act also provided a formula for the maximum lending commitment by the FBDB which effectively limits the bank's outstanding loan commitments to about $2.2 billion.

● (1750)

The FBDB Act provides that the bank can make loans where financing is not available under reasonable terms and conditions from private lenders.

Small business financing has been growing very rapidly in the past few years and this has been reflected in chartered bank loans and those of other private lenders. In addition, the strength in small business activity has been reflected in increasing amounts of funds being demanded from the FBDB by small and medium-sized businesses which cannot obtain the necessary term financing from private lenders.

As a result, the bank now has grown from approximately 24,000 customers on the books of the Industrial Development Bank, its predecessor, which had $1.2 billion outstanding at the time of the parliamentary consideration of the FBDB Act, to nearly 38,000 customers and $2.1 billion outstanding today.

Thus, after five years of operation since the passage of the FBDB Act, the bank is approaching the $2.2 billion lending ceiling. This is not surprising; in fact, it was almost traditional that such ceilings in the successive revisions of the Industrial Development Bank Act be set at a level which would cover about five years' operations, after which the bank's legislation would be reviewed.

A review of FBDB's objectives and policies is currently under way, but a housekeeping amendment is required in the interim in order to allow the FBDB to continue to service the financial requirements of small and medium-sized businesses. In any event, the government's position is that it is preferable to come to Parliament with the results of a thoroughgoing review of small business financing and the implications for the range of federal programs involved, rather than proposing extensive changes to the FBDB Act alone.

In summary, we have a Crown corporation for which some absolute financial limits were built into its legislation five years ago, and these are now being reached. While review and consultation on the future direction of federal intervention in business financing is timely and is being undertaken, there is

[Mr. Lamontagne.]

no reason to impair the corporation's current operation during this review process. Therefore, the government is recommending that Parliament adopt interim legislation to allow the corporation to continue to operate on a "business as usual" basis for an additional period of time, pending the broader review of federal programs in the business financing field including, of course, the Federal Business Development Bank.

The route proposed for increasing the lending authority of the FBDB is to increase the ratio of outstanding loans to paid-up capital. The advantage that this would have is that no additional federal budgetary expenditure for paid-in capital would be required. This would be in keeping with the general policy of restraint on federal expenditures.

The Federal Business Development Bank is currently lending $75 million per month on average. At an average of just over $50,000 per loan, this represents 1,500 Canadian businesses per month which get term loans approved by the bank. If this amendment is not passed, the FBDB will only be able to lend an amount equal to the repayment of existing loans. This would cause the FBDB loan approvals to drop to one-third of their current level so that only 500 rather than 1,500 small and medium-sized businesses would be assisted. This would be at variance with generally accepted policy at the federal level that government intervention should be designed to reduce obstacles for small businesses to obtain funding on reasonable terms and conditions.

The provisions of the proposed amending legislation would automatically raise the Federal Business Development Bank's maximum lending authority to $2.6 billion. Depending on both the level of the bank's loan authorizations in the coming months and the timing of the review of FBDB and other programs, this may or may not be sufficient to meet the bank's cash requirements until a more extensive revision to the legislation occurs. Should the bank's financial requirements exceed the $2.6 billion level during this review period, the current amendment would empower the governor in council to make a further upward adjustment.

Any limitation on the bank's ability to make loans would have adverse effects on the Canadian economy. The bank's financing is estimated to assist in the start-up of over 2,000 enterprises per year in Canada. In terms of employment, FBDB financing in 1978 was estimated to assist in the creation of some 20,000 new jobs the preservation of 16,000 existing jobs. To the degree that the bank's lending operations are restrained, its beneficial effects on the Canadian economy will be lessened. This would be particularly important in small towns and rural areas because the bank's penetration is higher in these areas which are not as well serviced by the private lenders as are the major metropolitan centres.

The bank's loans and equity investments have other beneficial economic effects. For example, there are positive trade balance effects when FBDB customers are successful in producing goods and services which replace imports or enter the export markets.

The bank has grown from four branches in the early 1950s to 25 branches in mid-1969, and now has some 100 branches