The existing legislation provides that eligibility under this program is restricted to businesses whose annual sales are less than $1.5 million. The Bill contains an amendment aimed at raising the eligibility limit to $2 million. This amendment is our response to requests from lenders and interest groups that have taken up the cause of small businesses. The eligibility limit has remained unchanged since 1977 and the increase I am proposing today will partly offset the impact of inflation since that time. The $2 million limit will also keep the definition of small business more in line with the one used by Statistics Canada and the small business secretariat. The amendment will therefore make it easier to reconcile the statistical profile of businesses which take advantage of the Small Businesses Loans Act program with the basic data used by Statistics Canada and the small business secretariat; thus we will obtain a more accurate statistical analysis of that sector.

According to the existing legislation, a borrower may apply for loans whose overall amount must not exceed $100,000 at any time. Consideration was given to a higher limit, but since the average loan in 1984 was only $28,888, such an initiative does not seem to be justified for the time being. However, an exemption concerning that limit is provided under the Bill should a group of borrowers decide to amalgamate. If at least two businesses with outstanding loans under the Act opt for amalgamation and their aggregate loans are over the $100,000 limit, a new clause stipulates that, in such a case, the Minister will not reject any request for repayment by arguing that total loans outstanding under the Act exceed the $100,000 limit, which would be the case of a single borrower.

The amendment also provides that those amalgamated businesses will again be eligible for additional loans under the existing program as soon as the total of outstanding loans drops below $100,000, with the understanding, of course, that the annual sales of the amalgamated business are not more than $2 million and that it does not contravene the other provisions of the Act. This legislative amendment will eliminate an anomaly in the existing program.

Businesses which have received loan assistance and expanded through amalgamation are often small businesses on their way to becoming medium-sized or large companies. This Government is committed to promote the expansion of small businesses and, thanks to the proposed amendment, such growing businesses will no longer be penalized.

With a view to explaining the latest amendments featured in this Bill, Mr. Speaker, I should like to describe briefly the various loan activities since the Small Businesses Loans Act became law. Before 1978, borrowers could ask for an interest rate which was set twice a year and which was often lower than the prime rate.

• (1115)

In 1977, all loans totalled some $96 million, while all claims paid by the government to financial institutions because of losses incurred following defaults totalled $600,000. In 1978, the formula for determining the interest rates lenders were allowed to charge was changed from a fixed rate to that of the prime rate plus 1 per cent. Following the application of this new formula, the number of loans made available under the Small Businesses Loans Act increased tremendously, for it made it more financially interesting for banks and lenders to participate in this program. The actual loans made available increased from $96 million in 1977 to $180 million in 1978. Following this amendment, the claims paid by the government also increased tremendously. In fact, they more than doubled in one year to reach $1.4 million.

Since then, both loans and claims have been on the increase, so that some $900 million were made available in 1984 under this program. The government received that year claims totalling $43 million. Moreover, even if the program was cancelled now, we would still have to compensate lenders in the months and years ahead for losses incurred due to defaults in the past few years. The greatest flaw of the Small Businesses Loans Act, in its current form, is that the government assumes full and complete responsibility for the losses thus incurred. The government is satisfied with the way financial institutions have administered the program, but the tremendous increase in loans as well as good sense seem to dictate that lenders should assume part of the risk they are willing to take. Lenders have an edge now because they are being paid interests of 1 per cent over the prime rate on these nearly risk-free loans and participate in a program which is a precious marketing vehicle.

Originally, the program had been established as an incentive for chartered banks to offer term loans. Here is why. In 1961, chartered banks did not have the power or authority to lend money on mortgages or against the various instruments of today. Because lenders are now competitive enough in this area, they should naturally be willing to assume part of the risk. Accordingly, the bill which I introduced today provides for the sharing of losses between the government and various lenders and will apply naturally only to loans granted after April 1, 1985. It suggests a 90-10 government-lender loss-sharing ratio.

Our aim in drafting this bill was to establish an equitable and fair loss-sharing ratio which would not jeopardize the program while transferring part of the responsibility for the losses incurred to the lending institutions. Mr. Speaker, it is of utmost importance to continue offering incentives to private lenders to encourage them to offer voluntarily this program which promotes a climate which is conducive to the creation and development of new businesses in Canada.