

fall of 1981, Schedule B banks held about 70 per cent of their loan portfolio in business loans greater than \$5 million. The large business loans of the Schedule B banks are dwarfed in comparison to the large loans of the Schedule A banks. Although foreign banks seem to concentrate on loans in excess of \$5 million, it is also evident that they participate in the lower end of this market. However, restrictions on their capital base are one of the inhibiting factors here.

From January 1978 to August 1981, foreign bank affiliates' assets grew by almost 43 per cent per year. Although their operations are small by the standards of Schedule A banks, they have the potential to provide a strong new source of competition in the business lending area. The Committee encourages these banks to seek out business opportunities with small and medium-sized companies.

Roynat was established in 1962 to specialize in the provision of term loans to small and medium-sized businesses. Nevertheless, since the mid 1970s, its operations have grown at rates below those of the chartered banks and foreign bank affiliates.

Sales finance companies were much less active during the 1970s as financial intermediaries. They have been moving strongly into the area of commercial business loans, although this still represents only 9.50 per cent of their loan business.

The Federal Business Development Bank is an institution that specializes in term lending to small business. Its relative position as a lender to these firms has deteriorated rapidly since the mid 1970s. At the lower end of the business loan market, the growth of FBDB loans was about one-fifth that of chartered bank loans under \$200,000,⁽¹⁶⁾ in real adjusted terms. In order to maintain any kind of position in the market, the FBDB has moved to very small loans, with the average loan size being \$35,000 in 1980.

In the 1970s, as the chartered banks became very active in business term lending and in small business financing, they had to compete with a number of private lenders as well as with the government as lender. To the extent that the banks have been able to increase their market share, it is largely due to their ability to provide the kinds of services demanded at competitive prices. The competition will increase further as the Schedule B banks reach the upper limit of allowable activities as specified under the Bank Act. However, it has also been indicated that granting charters to foreign bank affiliates in Canada has actually reduced the amount of competition they exert on Schedule A banks because of the regulations they now face.

Studies on Small Business Finance

Two major studies on small business financing have recently been released. A Report to the United States Congress has been prepared by the Interagency Task Force on Small Business Finance.⁽¹⁷⁾ In Canada, a study on the role played by the chartered banks in financing small business has also been completed.⁽¹⁸⁾ Although the institutional environments examined are dissimilar, the results of the studies are in many ways alike.