

In testimony, it was stated by the Inspector General of Banks, Mr. W.A. Kennett, that the information concerning the chartered banks' non-current loan position was requested of the banks only once each year, before the annual review of each bank. (The latter is stipulated in the Bank Act (1980).) For this reason there is no recent information available, either publicly or privately, concerning non-current loans or non-productive loans, for the banking industry as a whole. At present, what information there is has indicated to the Inspector General of Banks that non-current loans are increasing in number rapidly. For this reason, it is strongly suggested that the Office of the Inspector General of Banks be provided with information on both "non-current loans" and "non-productive loans" on a regular basis for better monitoring of the whole system, particularly during difficult economic conditions. This would allow the Office of the Inspector General of Banks to be more actively aware of difficulties in the banking system if they should occur.

It is recommended that problem loans be defined and classified according to their contribution to a bank's revenue. This would more precisely isolate those loans that affect a bank's financial condition at any one moment. There should be three classifications of loans, as follows:

- i) fully contributing loans—all loans that are regarded as current on their interest payments and are paying the full contractual rate of interest negotiated at the time the loan was made;
- ii) "partially contributing"—all loans that are current on their interest payments but where the full contractual rate of interest is no longer being charged, and where the interest rate differential between the contractual rate and the rate currently being paid is not being accrued;
- iii) "non-contributing"—all loans where interest was due but not paid for a period of 90 days, or where there is any indication that the borrower is in the process of being placed into receivership, or where, in the judgement of management, the interest on the loan is not being accrued and is considered on a cash-when-received basis only.

The degree of disclosure of these loan classifications should be determined by the Office of the Inspector General of Banks, and be sufficient to enable the isolation of problem loans, whether foreign or domestic and according to industry.

It is also recommended that banks disclose all partially contributing and non-contributing loans which have been rescheduled over the last twelve month period. A "rescheduled loan" is a loan in which the unpaid interest has been capitalized or made part of the new principal amount outstanding on the loan. When a bank takes this step, the loan becomes current because the overdue interest is no longer outstanding. Once this has been done, the loan is usually removed from the non-current and more particularly non-productive loan categories. This information will better enable the Inspector General of Banks to determine the changing status of bank loans.

3.5 SIZE OF LOANS TO INDIVIDUAL BORROWERS

There has been considerable discussion during the hearings relating to the size of loans made to individual borrowers. This became particularly evident during the summer of 1981,