of interest which will not exceed the Government's own borrowing rate by more than ¼ of 1 per cent. For the present quarter of 1963, the Loan Fund rate would, therefore, be somewhere between 5 1/8 and 5 3/8 per cent. The rate will be re-established at the start of each quarter. This means that a municipality will know as soon as a project is approved what its borrowing rate will be for the whole of the project, since the rate will be established as of the date of approval rather than the date when the money is actually loaned.

A second and much more important inducement to municipalities to participate in the programme is incorporated in the 'forgiveness feature' – a provision which is virtually identical with the 'forgiveness' provided for loans for sewage-treatment projects under Part VIB of the National Housing Act. There appears to be a misunderstanding in some quarters about the financial significance of the forgiveness aspect of these loans which needs to be cleared up. Let me give you three examples:

(i) a 20-year loan at 5¼ percent interest with 25 percent forgiveness is equivalent to a 20-year loan at 2.05 percent interest with no forgiveness.

(ii) a 15-year loan at 5¼ percent interest with 25 percent forgiveness is equivalent to a 15-year loan at 1.24 percent interest with no forgiveness.

(iii) a 10-year loan at 5¼ percent interest with 25 percent forgiveness is equivalent to a 10-year loan without interest. (Actually, it is even better than that; it is the equivalent of a 10-year loan plus interest payable to the borrower of 0.32 per cent *per annum*.)

If the loans are serial in type, as I assume many of them will be, the average maturity would be short and the most realistic of these comparisons would be with the 10 and 15 year loans, where the interest equivalent of the forgiveness is greatest.

ACCEPTABLE PURPOSES

The purposes for which municipalities may borrow from the Fund are very broad. They include municipally-owned water-treatment plants and distribution mains, municipality-owned storm sewers, streets and thoroughfares, municipally-owned buildings, and municipally-owned public transport or transit systems exclusive of rolling stock and similar operating equipment and other types of capital projects, the construction of which will increase employment. Schools may also be financed under the Act if the province concerned so wishes, provided they are truly additional projects that will increase employment.

Loans may be made by the Municipal Development and Loan Board direct to the municipalities concerned, subject to provincial approval of the projects to be undertaken and the financial capability of the municipality concerned. Alternatively, the provinces have the option of granting and administering the loans to their own municipalities subject to such safeguards as are necessary to enable the Municipal Development and Loan Board to report to Parliament that the moneys have been properly loaned according to the purpose of the legislation.

PROVINCIAL DECISIONS AWAITED

The members of the Municipal Development and Loan Board have been appointed and the Board is now ready to go to work just as soon as the provinces decide which of the alternatives they wish to follow. Thus far two provinces have told us definitely that they have decided to have the Board lend directly to their municipalities. The Province of Quebec wishes to take advantage of the other alternative, and therefore the Board will deal with the province and the province with the municipalities. A special session of the Quebec Legislature was called to approve the necessary legislation. The next step will be for the province to enter into a formal agreement with the Board. This is expected to be completed promptly.

In addition to Quebec, two other provinces have indicated that they wish to administer the Loan Fund themselves. Five provinces, including Ontario, have not yet advised the Federal Government how they wish to proceed in this matter.

ONTARIO SHARE OF FUND

If the Ontario share of the Loan Fund – some $135 million – is provincially administered, all of the municipal contacts will be with the Province of Ontario. The province would assume responsibility – subject to the terms of an agreement with the Federal Government – for deciding which projects qualify under the provisions of the Act and for allocating the loan moneys. The province would itself, or through an agency, make the loans to its municipalities for each project and forgive the required 25 percent share. The Federal Government would lend an equal sum to the province for each project on the same terms and with equal forgiveness.

An arrangement of this kind might require provincial legislation before it could be made effective, as was the case in Quebec. In this event it would seem doubtful if such legislation would now be passed in time to get the maximum number of new projects, and the new jobs that would go with them, under way this coming winter.

If the Province of Ontario decides not to administer these loans itself, however, the Ontario share of the Fund could be handled by the Municipal Development and Loan Board direct. The Board will shortly be ready to deal with applications without delay if that is what the provincial authorities wish. I should point out that, if this is the procedure decided upon for Ontario, the province would still have to give its approval to each application for a loan and would be responsible for transmitting all applications to the Municipal Development and Loan Board in Ottawa

In concluding these remarks, I should like to stress the importance of an early start on projects

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