These growth rates indicate a strong demand for this type of financing. This is not surprising given the implicit subsidy inherent in these loans. Though the figures show no significant restrictions on the supply of funds through this program, this does not mean that small businesses get all the financing under this program that they wish. Lenders are required to follow normal banking practices with respect to risk exposure, although the default insurance of this program does allow banks to increase somewhat the amount of risk they undertake. So it is expected that some of the complaints about the program come from businesses that were, rightly or wrongly, thought not to represent a good enough risk.

As of October 1981, SBLA loans accounted for only 8.2 per cent of the value of outstanding business loans under authorizations below $200,000. Because of the conditions placed on the lending institution, many of these loans would likely have been undertaken even without this program, albeit at generally higher rates. Banks appear to have used the implicit government subsidy of the SBLA chiefly to attract more loan business from small firms.

One of the recent complaints levelled against the chartered banks is the unavailability of term loans to small businesses. While 1981 data are not available, those for the period 1974-1980 show that the value of outstanding term loans tended to grow at faster rates for smaller authorizations (i.e. under $200,000 or between $200,000 and $1 million) than for the larger ones. For the two smallest loan size classes, term lending grew in excess of 23 per cent per year, while for the largest loan size class, it grew by under 19 per cent per year.(14) In addition, term lending for these smaller loan sizes grew at a faster rate than total business lending to these size classes. Undoubtedly this situation altered significantly during 1981; all parties testifying before the Committee mentioned the recent fall in term lending, especially fixed-rate term lending. Recently, supply and demand conditions have helped to determine the characteristics of loans; banks were no longer willing to supply funds, at fixed rates, over a long period of time, and borrowers were unwilling to pay the premium required to obtain such financing. Nevertheless, during the greater part of the 1970s, the Canadian banks were increasing their term lending by significant amounts; today the incidence of bank term lending is highest among the small firms.(15) This is to be expected since large firms generally have access to public markets and other financial institutions to attract term financing.

The data at the Committee's disposal do not identify the characteristics of these term loans (i.e. their length, price or other conditions attached); however, it does appear that the chartered banks were largely meeting whatever demand existed for such loans from the small business sector up to 1981. This contrasts with the situation in the early 60s when the Bank Act restrictions tended to keep banks out of the term lending business to smaller firms.

The competitive position of the Canadian chartered banks in financing the corporate sector should be viewed in relation to its competition, including affiliates of foreign banks (now incorporated as Schedule B banks), Roynat, sales finance companies, and the Federal Business Development Bank.

Little is known about the size distribution of business loans made by Schedule B banks and their predecessors; however, if their loan patterns are similar to that of the Mercantile Bank of Canada, which concentrates on business lending and has a large wholesale operation, then the foreign banks tend to concentrate on the upper end of the market. In the