

### 3.4 NON-CURRENT AND NON-PRODUCTIVE LOANS

There was considerable discussion throughout the hearings regarding non-current and non-productive loans. These loans are considered problem loans for the banks, in addition to the actual loan losses incurred in any one year, as discussed in the previous section.

The terms non-current and non-productive are very often confused and warrant clarification. The term "non-current loans" is defined in the Bank Act (1980) as follows:

"... a loan is non-current if

(a) the borrower has not paid the interest on the loan in accordance with the loan agreement without assistance from the bank.

(i) where the loan agreement does not require interest to be paid during a period not exceeding three years from the time of the first advance thereunder, throughout a period of two years commencing not earlier than the expiry date of the period during which interest is not required to be paid and ending on the day as of which the report is to be made, and

(ii) in any other case, throughout a period of two years immediately preceding the day as of which the report is to be made;

(b) the bank has taken any step for the purpose of realizing on security in respect of the loan;

(c) the bank has commenced proceedings to recover all or any part of the loan or interest thereon; or

(d) the manager of the branch where the loan is recorded, or an officer of the bank who has examined the circumstances relating to the loan, is of the opinion that the loan ought to be regarded as non-current."

In summary, "non-current loans" are broadly classified as loans for which, even if the interest payments are still being made, the bank considers it possible that the principal may not be recovered. Several banks stated during the hearings that, in their experience, only a small percentage of these loans, about 10 per cent, become actual losses. In fact, the Bank of Montreal testified in the hearings that as much as 50 per cent of non-current loans are paying interest. The term "non-current loans" should be considered a very broad classification that is largely left to the discretion of the bank itself. For this reason, some banks use the term "non-productive loan" to cover all loans that have not paid interest for a period of 90 days.

Only one bank has publicly disclosed its present non-productive loan position. The Royal Bank of Canada announced that non-productive loans approximated 1.2 per cent to 1.4 per cent of total assets outstanding at the end of April 30, 1982, compared to 0.8 per cent at the same time last year. In dollar terms, this would amount to approximately \$1.2 to \$1.3 billion versus approximately \$500 million last year. If this ratio for the Royal Bank was applied to the asset base for the whole of the Canadian banking system, the total non-productive loan position would approximate \$4.5 to \$4.7 billion as of April 30, 1982. It is important to realize with respect to the non-productive loans that the banks are not currently receiving interest on these loans; therefore the non-productive loan position means postponed revenue and a negative impact on bank earnings.