

Farm Credit Act

Credit Act and the present bill and, as the committee knows, the rate of interest on standard loans up to \$20,000 and supervised loans up to \$27,500 is not being disturbed.

So we think there is full justification for doing what is proposed here. It is consistent with practice in the past, and we think it is right, that after a certain minimum we can go on and charge the economic rate. This rate is based on what the government has to pay for money, plus the cost of administration and the reserve.

Mr. Horner (Acadia): Would the minister answer my question with reference to the relationship between the loans and the going price of land? Have any studies been made?

Mr. Hays: We have not made many studies. This is one of the reasons we set up an inter-departmental committee. The loans are based on the ability of a farmer to repay them plus interest in addition to making a living for himself and his family. The value of land varies, of course. If it is a tobacco farm it may be worth up to \$1,000 an acre. A dairy farm close to Toronto, for example, is worth more than similar land elsewhere. But the corporation lends the money on the basis of the borrower's ability to pay.

Mr. Horner (Acadia): Is it not a fact, in practice, that the loan is approximately half the going price of the land? I am not thinking of a tobacco farm. I am thinking of an average situation across Canada.

Mr. Hays: I still go back to the statement that this is a matter of judgment and administration. The corporation is investing the people's money and it is, naturally, very careful in doing so. In some respects I think the hon. member may be correct. I would point out that the corporation was able to lend \$108 million last year, which is a good deal more than in any previous year, and present applications indicate that another record is going to be set. Part of the reason, no doubt, is that more people are becoming familiar with the procedures to be followed under this act.

The question has been raised whether these loans will cause an increase in the price of land. Some people think they will, others that they will not. Nevertheless I think we need to raise this limit and I am sure the hon. member must agree with me, because he said so himself yesterday.

Mr. Korchinski: Can the minister indicate whether, if the amendment is passed, he foresees that there will be a loss in the reserve—

in the fund which normally sits there in case of bad debts?

Mr. Hays: The provisions we are seeking will have to do only with the portion of the loan which is in excess of the present level. The reserve to be set up is intended to cover loans in the higher brackets. It will have nothing to do with the lower brackets.

Mr. Korchinski: In other words, there could conceivably be a loss sustained if the corporation has to get its money at a rate higher than the 5 per cent charged under the previous set-up.

Mr. Hays: Yes, we can conceivably sustain a loss.

Mr. Hamilton: I should like to thank the minister for the explanation he has given. What he has done is to say that the experts in the Department of Justice and the Department of Agriculture have interpreted this subsection under discussion to mean that the interest rate arrived at will not be a rate sufficient to cover the losses or carrying costs of the whole loan; it will just cover the cost of that section of the loan which is over \$20,000 or \$27,500.

Mr. Hays: The estimated .87 per cent will pertain to the whole loan. Any losses incurred will come from the reserve established for the larger loans.

Mr. Hamilton: Perhaps I might take a little longer on this point. First of all, I have learned from experience that when the legal officers of the crown advise you, you accept their word because they are the final authority to which we can go. If they interpret the language of this amendment in that way, I will accept that finding for obvious reasons. But the point raised by the hon. member for Mackenzie is a valid one, that since the Farm Credit Corporation is paying 5½ per cent on the money it needs to borrow there obviously must be a tremendous loss on the amount of money lent under the original provisions of the act. I think that is true. If you are borrowing money at 5½ per cent and there is a cost of 1 per cent to carry on the work of the corporation and set up a reserve, then the cost of handling a loan of \$20,000 or less is 6½ per cent. The point the hon. member for Mackenzie was making was that if you do not have enough money in the corporation accounts to absorb this continual drain, would it not be necessary to come back to the house and ask for a vote to make up the loss on loans up to \$20,000 and \$27,500?

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