to retain an off-farm job for up to five years before becoming principally engaged in farming.

We must recognize that capitalization under all its forms is increasing in agriculture. With the farm labour problems of the past and the future, increased mechanization will continue. Many of the costs of technological change cannot be paid for immediately out of current incomes. Time is required.

I wish to remind hon. members that in recent years the farmer has very often been faced with the cost-price squeeze. This cost-price squeeze has forced him to pay for most capital requirements over a substantial period of time. The third amendment therefore deals with increases in lending limits. Under its present legislation, the Farm Credit Corporation can lend up to $100,000 for standard farm loans and up to $150,000 for loans for young farmers. The $150,000 limit for young farmers was set in 1975 and the $100,000 limit for the standard loans was set in 1972. According to Statistics Canada, land values have increased 25 per cent since 1975 and 130 per cent since 1972. Furthermore, a farm today is nearly 10 per cent larger than it was in 1975.

The present loan limit applies to farm units as well as to applicants. Thus, the maximum loan for a farm operated by father and child or by partners is presently $100,000, or $150,000 depending on age. If this bill is approved, the Farm Credit Act would provide a new loan limit of $200,000 per qualifying operator up to a maximum of $400,000 for a farm unit where there are two or more qualifying operators. We feel this will facilitate joint operations, encourage greater efficiency and a smoother phasing-in of the young operator into the family farm business.

This increase in lending limits is presently necessary so that the Farm Credit Corporation can meet the credit needs of Canadian farmers. There are a number of sectors which have become increasingly difficult to finance. For example, a grain-livestock operation of some 1,100 acres in Alberta presently costs about $400,000. In Saskatchewan—let us say on the Regina plains—if one wishes to purchase two sections of wheatland, it would likely cost over $500,000. In Ontario, a 75-cow dairy farm would cost more than $300,000. Cash cropping land of about 200 acres in size in southwestern Ontario would probably cost nearly $300,000 today. These are but a few examples of some typical capitalization requirements on family farms in Canada.

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In looking at these proposed amendments some critics will say that raising loan limits, removing the age limits and adding capital for the corporation will have an inflationary effect on land values. There may be a small element of truth to this statement, since the provision of more adequate credit will at all times favour the buying and selling of land. However, farmland gets its value because of its capacity to produce income. It is really economic conditions—that is, the level of income produced—which is the main determinant of land prices, not credit. An increase in the lending limits and removal of age limits only mean that the farmer with the greatest need can more easily compete for the land available.

[Mr. Whelan.]

A small number of other amendments are included in this bill which are designed to streamline the administrative operations of the act. One of these is the use of market value to assess all loans. That is a change. The Farm Credit Corporation presently uses two values in assessing the security it takes, market value and appraised value. Generally, market values are used for young borrowers and the appraised value for older borrowers. Market value is based on recent sales of similar properties, while appraised or productive value is based mainly on the capitalized value of net income. Appraised value is calculated and therefore is a theoretical value which is bound to be confusing.

The use of these different values has been confusing to borrowers and to other agencies as well as to the F.C.C. staff. In recommending the use of market values and repayment ability it is understood that loan limits would be based on the lower of the two. This point should be stressed. No matter how high or low the market value, all loans are determined on the repayment ability of the proposed operation.

We are also going to remove the supervision fee. Under the original act passed in 1969 a supervision fee of $25 was set for supervised loans, those which exceed 75 per cent of the appraised value. The fee is now more of a nuisance than anything else and sometimes gets in the way of establishing good relationships between the borrower and staff of F.C.C. Under the proposed legislation advisory services would be provided only where and when needed and when requested.

With regard to the provision for losses on these loans, the present act has established a reserve where actual losses have been charged. This amendment would allow the corporation to make provision for these losses according to accepted accounting principles. We see no difficulty in this at all. We think that the costs for administering these losses will nearly offset just writing them off.

The last amendment proposes that penalty interest be dropped. It is believed that removal of penalty interest would make the Farm Credit Act more compatible with the spirit of the Interest Act, which prohibits penalty interest except in those acts which specifically provide for it.

Even a higher penalty interest would probably not have the desired deterrent effect because farmers traditionally pay off loans as fast as they can, even when the interest rate is well below the market rate. That is history. In some instances, instead of taking capital and investing it in a trust company or in some long term investment at perhaps 9 per cent, they pay their old mortgages off in full. Some of those mortgages have interest rates of 5 per cent and 6 per cent. They just do not want to be in debt.

In 1978 farmers will face further increases in costs of farm inputs, and the present outlook is for slightly decreased net income. When one considers that these farmers represent a mere 6 per cent of our population yet produce most of the food which all 24 million Canadians consume, as well as food for