

Canadian Commercial Bank

If I may take this opportunity, Mr. Speaker, to congratulate my colleague, the Minister of Energy, Mines and Resources (Miss Carney) on her successful Western Accord, it will re-emphasize our judgment that the Canadian Commercial Bank has a viable future in serving Canada. As a result of her efforts, we know that business and real estate in western Canada will once more have a bright future.

Record high interest rates and the recession of 1981-82 created severe difficulties for many of the CCB's borrowers. The result was an erosion of the performance of the Bank's loan portfolio and the values of the underlying security. The financial condition of the Bank deteriorated further as a result of falling real estate values in western Canada. The Office of the Inspector General of Banks was aware that the Bank's financial position had been weakening gradually, and believed these problems could be contained as the recovery in western Canada gained momentum since the economic situation, though difficult, was stabilizing.

In 1981 the Bank diversified and expanded into the American market, including an investment in a California bank. Recent oil price declines caught the Canadian Commercial Bank's clients in the U.S. energy service sector in a serious cost-revenue squeeze. This severely impaired their ability to meet their loan obligations. Because drilling activity in the U.S. has been particularly hard hit, the surplus of used oil drilling machinery further added to the Bank's losses. The Bank expects to suffer losses of \$85 million on its U.S. portfolio valued at \$115 million.

The CCB demonstrated a highly responsible attitude in trying to expand its regional base and diversify its areas of operation and spread its risks. Unfortunately, a substantial portion of its portfolio remained in the U.S. energy-related loans. In this regard, I want to emphasize, CCB is different from other western based banks in Canada which have very limited exposure in the U.S. energy service sector.

Because of the magnitude of the problems, current management of the Canadian Commercial Bank recognized that they could not continue to ensure a viable banking operation and they contacted the Office of the Inspector General of Banks on March 14. The situation was such that the deterioration in the Bank's loan portfolio could result in its being unable to meet its obligations to depositors and creditors.

The Inspector General conducted an analysis of the CCB's position, including an on-site re-evaluation of the loan portfolio. It was determined that a support package in the amount of \$255 million would be sufficient to ensure the continuing operation of the Bank. In monitoring the situation, the Inspector General of Banks noted recent strengthening of the management and the board of directors. He noted the encouraging signs that remedial action was under way.

The Bank had begun efforts to diversify its loan portfolio and the locations of its operations. In addition, the Bank has worked hard to expand funding sources so that a smaller percentage of its liabilities were in the form of highly liquid money market bought deposits. The markets apparently viewed these efforts as beginning to produce beneficial results.

In fact, the Bank was successful in raising \$95 million in new capital since mid-1983.

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It was determined that with the support package the current financial situation could be remedied and the Bank could continue to play a positive role in our western economy. Therefore, it was appropriate to allow management the opportunity to continue efforts to work things out to the best advantage of its borrowers and depositors.

The Canadian Commercial Bank also approached the Province of Alberta. At an early stage that Government expressed a willingness to support the CCB. The willingness of Alberta to participate in financial assistance to the Bank is a clear indication of the importance of this institution to regional economic development.

This concern is shared by the Government of British Columbia which is also participating in the restructuring package, along with the federal Government, the CDIC and six chartered banks. Private institutions have also recognized that their self-interest lay in protecting and preserving the integrity of the confidence in our financial system. After extensive discussions concerning the form of the support package, they agreed to participate in co-operation with the provincial and federal Governments in assisting CCB.

As I stated earlier, we examined every possible option concerning the future of the Bank. The support package negotiated between the private sector and two levels of Government was the best option. There is a very large private sector participation in this support package. In addition, we have a partnership with the Provinces of Alberta and British Columbia. Therefore, we were prepared to facilitate this solution.

I should like to discuss with the House the Bill and the agreement which was reached between the support group and the CCB. The Bill sets out the terms under which the federal Government is requesting the necessary funds to participate in the financial restructuring of the CCB. We believe that the package, as a whole, will allow the CCB to remain on a sound and healthy footing. Under the agreement, members of the support group will participate in a portfolio of loans made by CCB. In total, the support group has agreed to advance \$255 million for this purpose. The Government of Canada is to advance \$60 million. The Government of Alberta will participate with an additional \$60 million. The six chartered banks will also provide \$60 million, and the Canada Deposit Insurance Corporation, which is funded by its member institutions, will contribute \$75 million.

Paragraph 2(a) of the Bill enables the Government to acquire its participation certificates as set out in the agreement. Once the participation in the loan portfolio has been sold, the Bank will then be able to reduce its loan loss provisions by a corresponding amount.

The agreement provides that while in force, CCB will pay members of the support group, excluding the Canada Deposit Insurance Corporation, 50 per cent of pre-tax income until