

*Farm Improvement Loans Act*

While F.I.L.A. will be helpful also to this group, it is much more vitally needed by the smaller farmer whose creditworthiness may not be as well established, and chances are that it is this smaller farmer who will have to depend on F.I.L.A. to get at reasonable cost the credit he needs to buy equipment for the improvement of his farming operation.

● (4:10 p.m.)

Back in 1944, when the farm improvement loans program was being formulated, it was quite feasible to have a rate established in the legislation itself, and to leave it unchanged for an extended period of time. This approach did indeed work quite satisfactorily for quite a number of years. In recent years, however, there has been an increasing need for greater flexibility and quicker responsiveness to change in the economic environment. The need for greater flexibility in the rates of interest on guaranteed loans was recognized as early as 1960 when the government of the day brought before the house, as a companion measure to the highly successful F.I.L.A. program, the Small Businesses Loans Act, under which guaranteed loans may be made to small businessmen. This act, which became operative early in 1961, provides that the interest rate is to be prescribed by regulations. Another more recent example can be found in the Canada Student Loans Act which was passed in 1964. I find myself in full accord with opposition members when they suggest that the F.I.L.A. interest rate be determined by a formula, and I can gladly assure the house that we expect to prescribe a formula for the determination of the interest rate, and not a new fixed rate.

I cannot give the house at the moment full details of such a formula, because they have not yet been fully worked out. In the case of guaranteed loans, such as those under the Farm Improvement Loans Act, it is appropriate, and it has been the practice, to consult with the lenders before finalizing the details for a formula on interest rates on loans to be made by these lenders that will apply after the measure now before the house has been approved. I should like to make a small correction here and say that with respect to the Small Businesses Loans Act and the Canada Student Loans Act there have been consultations with the lenders before the prescribed rate, which in this case would be the maximum rate under which the guarantee is available, has been set down. But I would be glad to outline the general principles which we are currently considering in connection

[Mr. Olson.]

with the construction of such a formula. The formula will certainly relate the Farm Improvement Loans Act rate of interest to generally prevailing levels of interest, and this will probably be measured by reliance on yields on government of Canada securities of comparable term to maturity. In addition, I would expect that there will be a mark-up in respect of administrative cost. There should be provisions for periodic adjustments in the rate, perhaps quarterly, but the guiding principle should certainly be that adjustments would come about automatically, triggered by changing circumstances in the capital market.

I should add that this approach is much more likely to work to the advantage of farmers over the long run than would a rate fixed for a long period of time. True, when interest rates go up, farmers along with all other groups of borrowers, have to pay more, but farm improvement rates would also go down more quickly as monetary conditions change. This is the kind of flexibility that we are confident will work to the full advantage of the farming community, keeping in mind, again, that what is of importance to farmers is not only cost, but also availability.

I should like to say in conclusion that it would be nice if at this point we could state the specific amount, or give all the factors which would be included in the formula; but I am sure hon. members opposite will realize that in view of the availability of funds of those people who will actually be lending their money, and in the hope that this measure will be enthusiastically supported we have to consult with the lenders and arrive at a rate that, as I have said many times, is high enough so that it will be used and yet low enough so that the guarantee does in fact constitute a real assistance to some of the borrowers whose credit rating may not be such as to warrant their obtaining the most favourable rate at the present time.

**Mr. Horner:** Mr. Chairman, the minister's remarks have been a perfect example of what should be done at the very beginning of the debate on a subject such as this one. Many hours of questioning of farm representatives have gone into the preparation of this bill. If the minister had made his ten minute statement the day before yesterday, I am sure that much of the concern which many hon. members on this side of the house feel would have been alleviated. However, all this goes to substantiate the belief that, in a democracy, debate is very necessary and is one of the freedoms we enjoy—the freedom to express